Austria .. Sch 20	Indonesia .. Rp 2500	Portugal .. Esc 90
Bahrain .. Din 0.650	Italy .. L 1500	S. Arabia .. Rls 5.00
Belgium .. BFr 45	Japan .. Y 550	Singapore .. S$ 4.10
Canada .. C$1.00	Jordan .. Fils 500	Spain .. Pta 125
Cyprus .. C£0.75	Kuwait .. Fils 500	Sri Lanka .. Rup 30
Denmark .. DKr 8.00	Lebanon .. £L 6.00	Sweden .. SKr 7.00
Egypt .. E£1.00	Luxembourg .. LFr 45	Switzerland .. SFr 2.20
Finland .. FMk 6.50	Malaysia .. Rm 4.25	Taiwan .. NT$ 65
France .. FFr 6.00	Mexico .. Pes 300	Tunisia .. Din 0.600
Germany .. DM 2.20	Morocco .. Dh 6.00	Turkey .. L 250
Greece .. Dr 80	Netherlands .. Fl 2.75	U.A.E. .. Dh 6.50
Hong Kong .. HK$ 12	Norway .. NKr 7.00	U.S.A. .. $1.00
India .. Rup 15	Philippines .. Pes 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,892 — Tuesday April 1 1986 — D 8523 B

New test for East-West trade, Page 4

World news

Hampton Court damaged by fire

Fire destroyed part of Hampton Court, near London, the oldest of Britain's royal palaces. The widow of Sir Richard Gale, former Deputy Supreme Allied Commander, Europe, is feared to have died in the blaze which destroyed national art treasures.

The fire is thought to have started in or near the apartment in the 16th century palace occupied by Lady Gale, who was 88. Eight other elderly widows escaped from the flames which destroyed the southern wing built by Sir Christopher Wren, architect of St Paul's Cathedral in London.

The palace, where King Henry VIII once lived, is now visited by more than 500,000 tourists every year.

Airliner down

An airliner with 170 people on board is reported to have crashed soon after take-off from Mexico City on a flight to Los Angeles. An official of the airline, Mexicana de Aviacion, said it was not known if there were any survivors.

Crash kills 44

A transport plane crashed in Mozambique killing 44 including the wife of Defence Minister Alberto Chipande.

Oil cut-back

Saudi Arabia, blamed by oil-producing countries for beginning a collapse in world prices, cut output in March, which could help defuse criticism of its oil policies, sources in Bahrain said.

Punjab toll

Three more people were killed in Sikh extremist attacks in the Punjab, bringing the weekend death toll to 38, police said.

Khomeini rebuke

A call by Iran's Ayatollah Khomeini for all able-bodied young men to be prepared to fight against Iraq is seen by diplomats as a sharp rebuke for moderates seeking a negotiated peace in the Gulf war. Page 2

Anti-nuclear clash

Clashes with police brought 68 arrests at a mass demonstration organised by peace groups and the political left against West Germany's first nuclear reprocessing plant at Wackersdorf in Bavaria. Page 3

Riot arrests

Riot police in Kwangju, South Korea, arrested 70 and used tear gas against demonstrators in the biggest anti-government protest rally for six years.

Antonov request

Rome's Penal Court is to hear a request for permission to leave Italy from Bulgarian Sergei Antonov, acquitted on charges of plotting to assassinate Pope John Paul.

Peace proclaimed

The end of Uganda's five-year civil war was proclaimed by President Yoweri Museveni.

Salvador fears

Military experts in San Salvador said they expected a dramatic rise in urban guerrilla activity as part of a new strategy by left-wing insurgents battling against the country's US-backed army.

Pakistan appeal

Pakistan's President Mohammad Zia-ul-Haq said his country urgently needed supplies to continue to develop a peaceful nuclear energy programme.

Rocket attack

Two rockets were fired at the home of Japan's Crown Prince Akihito and a nearby guest house due to be used for an economic summit in May. The missiles which failed to explode, are believed to have been fired by left-wing radicals who are also reported to be ready to sabotage Japan's high-speed bullet trains by dropping cars on to them from bridges in a campaign against the summit.

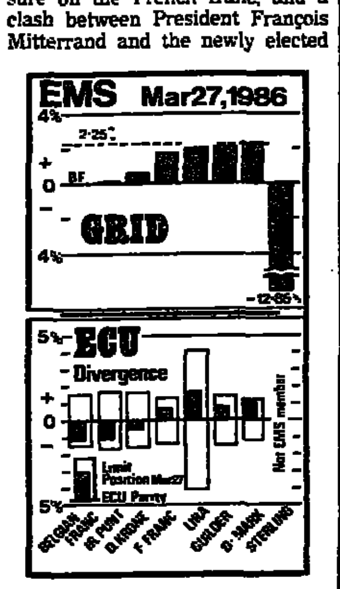
Business summary

Tokyo surges to new peaks

TOKYO climbed to new peaks yesterday following active buying by institutional and individual investors. The Nikkei average added 268.85 to close the session at a record 15,859.75. Page 38

WALL STREET: By 2pm the Dow Jones industrial average was 0.60 down at 1,821.12. Page 38

EUROPEAN Monetary System: Currencies traded quietly ahead of the Easter break within the EMS last week. Reports that the West German D-Mark would be revalued in a realignment put a little pressure on the French franc, and a clash between President François Mitterrand and the newly elected Government increased speculation as to how quickly there would be a devaluation. Elsewhere, sterling recovered in relation to its central rate, following comments by Mr Nigel Lawson, Chancellor of the Exchequer, that the time was still not right for sterling to become a member of the exchange-rate mechanism.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

UK INCOMES are forecast to rise 5 per cent in real terms this year after a 2 per cent rise in 1985. Company profits rose 6 per cent last year. Page 8

INFLATION in the UK is likely to fall to below 3 per cent next year, the London Business School says. Page 7

BELGIUM faces an austerity package including wage restraints and cuts in education spending. Page 3

MALAYSIAN stockbroker Razak and Ramli was suspended from the Kuala Lumpur Stock Exchange for failing to honour forward share purchase contracts. Page 20

THORN EMI is negotiating the sale of a share in its micro-chip subsidiary Inmos to Matsushita of Japan as part of a move to find partners to help it develop Inmos's advanced transputer chips. Page 18

SIP, the principal Italian telephone utility which is controlled by IRI, the state holding company, last year achieved a 25 per cent rise in net profits, which reached L232bn ($148m). Page 20

CARSON PIRIE SCOTT, the Chicago retailing group, has promised an all-out fight against a $347m bid from a group of local investors aiming to assemble a new stores group in the city. Page 19

FAIRCHILD INDUSTRIES, the New York aircraft manufacturer and aerospace components group, has suffered a severe blow from the cancellation of government funding for its planned T-46 trainer. Page 19

UNION CARBIDE'S chairman, Mr Warren Anderson, says he will retire in November when he reaches the US chemical group's normal retirement age of 65. Page 30

Ulster violence flares as Unionists defy ban on march

ANGRY Ulster Unionists defied a British Government ban on a *planned Protestant group's march* through Portadown yesterday, fighting prolonged street battles with police in which gangs of youths smashed shops and erected burning barricades, writes **Hugh Carnegy in Portadown.**

Earlier, the Rev Ian Paisley, leader of the Democratic Unionist Party *(DUP), led a speedily staged mid*night march of more than 3,000 protestors through the town, deliberately flouting the ban and parading past Catholic housing estates.

At least eight police officers and several civilians were taken to hospital as police, backed by the most prominent British Army presence *seen at such an event since the* agreement was signed last November, sealed off the town centre in the afternoon.

One civilian was seriously injured by one of dozens of plastic bullets fired at a crowd that in*cluded uniformed flute bands and* youths in paramilitary dress hurling stones, bottles and paint. Several shop windows were smashed, and one unfinished building was set alight.

It was a fiery start to the "marching season" of commemorative parades which continues throughout *the summer and looks set to pro*vide the main battle-ground between the UK Government and Unionists over the recent Anglo-Irish agreement which gives the Irish Republic a say in the affairs of the province.

However, the scale of violence appeared well within police and army *control and did not approach* the levels of disturbance some predicted if the original march had gone ahead.

The Apprentice Boys of Londonderry, a province-wide organisation, had predicted 20,000 loyalists would converge on Portadown, in County Armagh, for their first Easter Monday march there for 20 years.

Mr Ian Paisley

Although they did not include the Catholic "tunnel" area on their route, they planned to march up the mainly Catholic Garvachy Road in protest at police re-routing of Protestant marches last summer which led to similar clashes.

Re-routing is now seen by Unionists as a direct concession to Dublin under the Anglo-Irish agreement.

Instead of re-routing the march as expected, Mr Tom King, Secretary of State for Northern Ireland, said on Sunday night that he was banning it on the advice of Sir John Herman, Chief Constable of the Royal Ulster Constabulary (RUC).

Sir John said the organisation of the march had been taken over by paramilitaries.

"In addition to rioting, there was a threat of bombing and shooting by which the security forces in the main, but also members of the public, would suffer," Sir John said.

This implication that loyalist paramilitaries were planning armed attacks on the RUC and army was followed by the detention of 28 members of the Ulster Defence Association, the largest Protestant paramilitary group. They included one of its top figures, Mr John McMichael.

The immediate response to the ban was a gathering of loyalists in Portadown after midnight, led by Mr Paisley and his deputy, Mr Peter Robinson.

At a 4 am press conference, Mr Paisley said the march passed off without violence and pushed what he called Sir John's lie... through his front teeth and down his throat."

The marchers said they were attacked by nationalist youths, but lo-

Continued on Page 18

Washington calls for quiet diplomacy in summit preparations

BY STEWART FLEMING IN WASHINGTON

THE REAGAN Administration is reaffirming its insistence that the next summit with Mr Mikhail Gorbachev, the Soviet leader, must be in the US this year and that it would best be prepared by quiet diplomacy.

The White House's swift rejection of Mr Gorbachev's call for a summit in Europe to negotiate a comprehensive nuclear test ban reflects both the assertiveness currently characterising US foreign policy and the judgment that the Soviet leader's initiative was largely a propaganda ploy.

The Soviet media yesterday expressed surprise that the US should be still pressing Moscow to agree to a date for a summit later this year, while turning down Mr Gorbachev's nuclear test ban plan and attacking Soviet allies such as Libya.

A commentary by Mr Spartak Beglov of the Novosti news agency said "it is surprising that, despite all this, Washington never ceased to show its displeasure over the delay of a Soviet reply" on the timing of the next superpower summit. US efforts "to finalise the date of the Soviet leader's visit to the US" are designed to "create the impression that the American Administration can get away with anything," Mr Beglov wrote.

The Tass newsagency also said yesterday that the suggestion by Mr George Shultz, the US Secretary of State, that the superpowers should return to the kind of dialogue they had before Geneva could only be achieved if Washington gave up "the policy of confrontation and kindling conflicts."

Moscow is concerned by US willingness to take risks in its relations with the Soviet Union in pursuit of its own international objectives. This has been displayed fully in recent weeks, most notably in the decision to assert the right of free passage in the Gulf of Sidra *over the violent objections of Libya,* a country which employs Soviet military advisers who, the US feared at one point, might be injured by US retaliation against Libya.

Mr Reagan's decision to press ahead in Congress with efforts to secure approval from Capitol Hill for $100m of both military and non-lethal aid for the Contra guerrillas who are trying to overthrow the Soviet-backed Sandinista Government in Nicaragua, is another example of White House assertiveness.

There have been reports in Washington also during the past few days that the White House has decided to supply several hundred million dollars of sophisticated "Stinger" shoulder-held missiles to rebels in Angola and Afghanistan to help in the fight against Soviet-backed governments.

The decision, which has not been officially confirmed, is being presented as in part a response to Soviet moves to supply more sophisticated weapons to it clients, particularly Afghanistan.

Nevertheless, Mr Leslie Gelb, the highly respected New York Times diplomatic correspondent, reported recently that within the Administration there is a growing feeling that the US has, at the moment, "got the Soviet Union on the run."

The US response to Mr Gorbachev's call for a special summit to discuss nuclear tests was predictable since it is in line with the consistent US attitude towards the unilateral moratorium on nuclear testing which the Soviet Union has been following.

Mr Shultz's remarks on his flight back from a 10-day European trip, expressing dismay that US/Soviet diplomacy is being conducted so publicly, merely put that rejection in a context which tends to highlight the lack of progress that has been made by the superpowers since the summit in Geneva.

The US is irritated that Moscow the US has yet to agree a date for the summit meeting which Mr Reagan and Mr Gorbachev provisionally agreed to hold in the US this year.

In rejecting the Soviet leader's call for a summit in Europe the White House said meetings at the highest level should deal with the entire range of important issues between the two countries.

The White House said it was prepared to move forward on nuclear testing if the Soviet Union sends observers to next month's planned US nuclear test where the US has offered to show a new verification system to the Soviet Union.

Soviet Union arms output, Page 3; Editorial comment, Page 16

Lawson plans to increase pressure on level of yen

BY PHILIP STEPHENS IN LONDON

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, is planning to use a series of international meetings this month to step up pressure on Japan to allow a further appreciation of the yen against other major currencies.

Mr Lawson, who will meet finance ministers from other industrial nations in Washington and Paris this month and at the Tokyo World Economic Summit in early May, also wants to head off any move by the Japanese Government *to provide subsidies to exporters to* mitigate the impact of the yen's rise so far.

The Japanese currency has risen by over 25 per cent since last September's Group of Five agreement by leading finance ministers to bring down the value of the dollar. In recent weeks, however, the Japanese authorities have said that the move has gone far enough and have hinted that they may intervene on foreign exchange markets to prevent a further yen appreciation.

In evidence to the Treasury and Civil Service Committee of Britain's House of Commons last week, Mr Lawson said that he was broadly satisfied with the current pattern of international exchange rates but singled out the yen as remaining overvalued.

His arguments that the Tokyo Government should permit a further rise to secure a faster reduction in its huge current account surplus is likely to win broad support from other European governments and from the US Administration.

Criticism of Japan's stance in meetings of senior officials from leading industrial countries over the past few weeks has been relatively muted, but some ministers attending this month's talks are expected to adopt a more strident tone.

Recent economic forecasts considered by the officials suggest that Japan's current account surplus could almost double in 1986 to $80bn while the US deficit could widen to $145bn.

The view that a further sizable appreciation of the yen is urgently needed to correct such imbalances is not, however, universally shared.

Japan's argument that a rise in its surplus is inevitable this year because of the collapse in the oil price and as a result of the so-called J-curve effect of currency movements on trade balances has won some sympathy among international economic policymakers.

The J-curve means that a currency appreciation tends initially to increase current account surpluses because the value of exports rises in foreign currency terms.

The Tokyo Government has said in recent meetings that this distortion is likely to take around 15 months to unwind and has pointed to evidence from trade volumes to argue that the yen's appreciation is beginning to have a considerable impact.

Over the past few months the volume of Japanese exports has been more or less stagnant while the volume of imports has risen quite sharply.

Nevertheless, Mr Lawson and some of his continental European colleagues appear to believe that a further rise in the yen's value is essential.

Aquino demands Taiwan embassy staff quit

By Our Foreign Staff

MRS CORAZON AQUINO, President of the Philippines, has demanded the resignations of all 13 members of the staff at the country's representation in Taiwan because of suspected links with the assassination of her husband in 1983.

News of her move coincided with the release in Manila of a tape recording and letter from deposed President Ferdinand Marcos in which he accused "elements" of the US Government of aiding his overthrow. He also denied charges of corruption and hinted that he might return to the Philippines.

"We must war against the monster who imposes slavery," said Mr Marcos in a telephone statement taped yesterday and acquired, with the letter, by Associated Press in Manila.

He accused Mrs Aquino of lusting after wealth and power, imposing a dictatorship and allowing her followers to loot his palace and try on his wife's dresses.

He also said staff in the US embassy in Manila had threatened to use the US Marines to prevent him taking military action against Aquino supporters. Mr Marcos said charges that he owned property in the US and held deposits in Swiss banks were "lies by those who are scheming to get rich."

"We do not intend to abandon our friends and loyal supporters, limited as our capabilities are now," said Mr Marcos. "God willing, we will see each other again... you can be sure that we will see each other again."

The wholesale sacking of Philippines staff in Taipei was confirmed yesterday by Mr Joaquin Roces, who heads the Asian Exchange, representing the country's interests in Taiwan in the absence of official diplomatic relations between the two countries.

The dismissals stemmed from suspicions that staff at the Asian Exchange were reporting the movements of Senator Benigno Aquino shortly before he returned to Manila in August 1983.

Mr Roces said: "It was from Taipei that Aquino moved to Manila where he was killed." He added that it was "probably one of the reasons" for the sackings.

Mr Aquino was shot while being escorted from a China Airlines jet at Manila Airport. The Government of Mr Marcos claimed a communist assassin committed the crime, although other evidence pointed to military involvement.

Mr Roces was a member of Parliament representing Manila until

Continued on Page 18

ADR tax 'threat to British Gas sale'

BY DOMINIC LAWSON IN LONDON

THE BRITISH Government has been warned by its financial advisers that the £8bn ($11.8bn) to £10bn flotation of the British Gas Corporation will be damaged by the budget's imposition of a 5 per cent tax on conversion of UK shares into American Depositary Receipts (ADRs). *The privatisation exercise* is the largest attempted so far by the UK Government.

The US investment house Goldman Sachs had been expected to sponsor the issue of about 12.5 per cent of British Gas equity to US investors. However, many of these investors will not invest directly in *UK equities but will use ADRs* – certificates which show shares have been deposited in a bank and which are treated legally as US securities.

The draft articles of association of British Gas make specific provisions for the trading of the corporation's shares in the form of ADRs.

It is expected that an imposition *of a 5 per cent tax would end the* ADR market. An effective worldwide distribution of British Gas shares is essential if the Government is to create the perception of scarcity of stock in the corporation and thus a healthy level of demand.

The Government last week decided the prospectus of British Gas should be published towards the end of the third week in November, probably on the 19th. This would allow dealings in the new shares to begin at least a fortnight before the Christmas holidays.

Originally it had been intended to *publish the prospectus on October* 10, but this would have led to first dealings on October 27, the day of the City of London's Big Bang, unsuitable for a massive injection of new equity into the stock market.

Mr Ian Watts, a partner at stockbrokers De Zoete and Bevan, said last week: "It is vital to the success *of the British Gas offering in the* US to be able to convert the shares into US securities." Mr Watts added that the Government would have to float British Gas with a "significant level of debt," because the equity markets could not accommodate equity to the value of an unborrowed British Gas.

*The Government has already de*cided to saddle British Gas with about £2bn of debt in the form of new loan stock but has yet to hammer out with the corporation how much it should be expected to pay out annually in dividends

Editorial comment, Page 16

Austin Rover loss expected to increase

By Arthur Smith in Birmingham

AUSTIN ROVER, BL's volume car company, is likely to show a trading loss approaching £10m ($14.7m) when the group's 1985 results are announced tomorrow.

The UK company's net loss after interest and tax could be significantly higher than the £22.5m of the previous year when Austin Rover's accumulated deficit had climbed to £960m.

The failure of the cars company to achieve profitability at the trading level could add further embarrassment to the British Government whose plans to return BL to the private sector are already in disarray.

Of more immediate concern to Mr Graham Day, the Prime Minister's personal choice to take over as chairman and chief executive of BL, will be Austin Rover's recent disappointing sales performance.

The cars company must be set to dip into the red again this year given the pressure on margins in a fiercely competitive market and the marked slowdown in total UK registrations during March. Statistics from the Society of Motor Manufacturers and Traders show that, with only a few days to go, sales were

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CONTENTS

Fed meets to chart policy in uncertain atmosphere

BY STEWART FLEMING IN WASHINGTON

THE Federal Reserve's policy-making open market committee (FOMC) meets today to chart monetary policy in the wake of a period of internal turmoil which saw the initial defeat of Mr Paul Volcker, the Fed chairman, on a major policy initiative and the subsequent resignation of vice-chairman Mr Preston Martin.

The FOMC will meet against an uncertain background, both in terms of Washington politics and the economic outlook.

Mixed economic data over the past few weeks, including continued signs of weakness in the industrial sector and deepening problems in the farm and energy sector is encouraging speculation that the Fed will move to ease monetary policy and that within the next few weeks the central bank will cut its discount rate again from the current level of 7 per cent.

Against this, however, it is argued that lower oil prices and interest rates will soon have a stimulative impact on the economy and that this prospect, coupled with lingering concerns about how the dollar might react to aggressive signs of monetary easing, mean that a more cautious policy is still appropriate.

The recent tumult in the Fed boardroom is another reason for avoiding initiatives which might disturb financial markets which are still digesting the longer term implications of the events of the past few weeks.

Even the White House has been making it clear that it would like to see the Fed out of the headlines. Thus, last week White House chief of staff Mr Donald Regan, in a newspaper interview, hinted that Mr Volcker would be a possible candidate for reappointment next year when his period of office expires. It was the White House which, when faced with Mr Martin's decision to resign if he could not be assured of succeeding Mr Volcker, decided not to give him that assurance.

The key event which unleashed the storm at the Fed was a vote by the seven-member board on February 24 to cut the discount rate, a 4-3 vote in which Mr Volcker, voting last, chose to align himself with the defeated minority. By the end of the day, the vote was reversed. It did not become public until March 17, after the Fed had cut its discount rate on March 7 as part of a round of internationally co-ordinated interest rate reductions.

The defeat of Mr Volcker, even though it was reversed in hours, and the subsequent discount rate cut, are widely seen on Wall Street as events which weakened the Fed chairman. The fact that Mr Martin, one of his key critics on the Board, subsequently quit, coupled with the conciliatory tone of the White House, has undoubtedly repaired much of the damage to Mr Volcker.

But it has not calmed concerns on Wall Street that the central bank is in the process of becoming more politicised.

IMF agrees to recycle funds

BY OUR WASHINGTON CORRESPONDENT

THE board of the International Monetary Fund has agreed to implement a proposal to recycle to the poorest countries about $3bn of loan repayments to its trust fund.

The IMF is establishing a new Structural Adjustments Facility (SAF), to provide balance of payments assistance in the form of loans to eligible members.

Eligibility will depend on countries presenting medium term macro economic and structural adjustment programmes to try to overcome balance of payments problems and foster economic growth.

The IMF says about 60 of the poorest countries are eligible for the loans. Crucial to the implementation of the agreement has been a decision by India and China that although they will be making repayments of trust fund loans, they will not make use of the facility.

About 80 per cent of the money is expected to be made available to poor countries in sub-Saharan Africa, many of which are in dire economic straits and having difficulty meeting even scheduled repayments to the IMF.

But the extent to which other resources will be made available to the region and the extent of World Bank involvement in the programme are issues still under active review.

The US had originally proposed that the IMF and the World Bank should jointly administer the new facility. But this proposal was dropped in the face of heavy opposition and, as currently proposed, the bank and the fund will only jointly prepare medium term economic policy frameworks for borrowing countries. The extent of co-operation beyond that has yet to be finalised.

"The degree of World Bank involvement hinges in part on whether negotiations over the next three year funding programme for the International Development Association (IDA) produce an increase in IDA resources on a scale which will allow the bank to earmark finance for the poorest countries which could be tied to the new IMF structural adjustment facility.

US stops talks on chip trade with Japan

By Louise Kehoe in San Francisco

US TRADE officials have suspended their talks with Japan on semiconductor trade because they "were not making any progress," according to an official in the office of Mr Clayton Yeutter, the US Trade Representative. No date has been set for resumption of the talks.

The two-day talks were the latest round in negotiations that began last August, stemming from a US semiconductor industry complaint. The US chip-makers have accused the Japanese of selling chips in the US "below fair value" and of excluding US suppliers from the Japanese semiconductor market which is valued at over $9bn (£6.1bn) and represents the largest semiconductor market in the world.

Eager for accord

Trade representatives of both countries are understood to be eager to reach a settlement of the trade dispute. The Japanese have expressed a desire to settle the issue before Mr Yasuhiro Nakasone, the Japanese Prime Minister, visits Washington on April 12-14. In Washington, the US Administration is under increasing pressure from Congress to take action on Japanese trade.

"We are disappointed that more progress has not been made," said a spokesman for Mr Yeutter. No agreements were made at last week's talks, he said.

Following the suspension of talks on Friday, "the US Government is reassessing its position," he said. "We do anticipate that the talks will be resumed fairly soon, although we have not decided upon a date or location."

Iran war-call setback for peace

A CALL by Ayatollah Ruhollah Khomeini for all able-bodied men to prepare to fight Iraq is seen by diplomats in Tehran as a rebuke to anyone seeking to turn war successes into a strong Iranian hand for peace talks, Reuter reports from Tehran.

Iran's 83-year-old spiritual leader, who is also armed forces commander-in-chief, made the call last week to finish off what he regards as a sacred war against an impious regime.

Diplomats said they interpreted the virtual order, which snowballed quickly into a mass call-up for war volunteers, as a sharp rebuke to anyone who wished to negotiate peace following two successful military offensives in February.

"Those who are opposed (to the war) ... should know it is not to God's liking," Ayatollah Khomeini told senior officials and foreign diplomats.

His statement came after the small "freedom movement" of ex-Prime Minister Mehdi Bazargan, Iran's only legal opposition, issued a pamphlet calling again for Iran to seek peace.

It said Iranian officials chasing victory were like desert wanderers chasing a mirage, adding that the war was a trap set by the super powers to sap Iran's strength.

Diplomats speculated that Ayatollah Khomeini's warning was also to clerical government insiders who might have started to think along similar lines. But there is no public evidence of this.

After Ayatollah Khomeini's statement, the powerful speaker of Parliament, Ali Akbar Hashemi Rafsanjani, said the "opponents" were "a handful who nag here and there."

Ayatollah Ahmad Azeri-Quomi, a spokesman for the traditionalist, conservative wing of Iranian clerical politics, condemned those who said the war "brings nothing but the death of the young men of the two nations."

Any serious Iranian move towards negotiations now would have to dilute Iran's main peace demand for the ousting of Iraqi President Saddam Hussein.

This was unlikely before Ayatollah Khomeini's statement, but now was out of the question, the diplomats added. The Iranian leader reviles President Hussein for his secular Baathist (Arab nationalist) government. Iran also says it wants to punish the Iraqi leader for starting the war in 1980.

Ayatollah Khomeini's speeches make clear he sees the war as part of his historic crusade to restore Islam's former glories, or, as the Iranian media repeats daily, a battle of "light against darkness," "right against wrong."

Since Ayatollah Khomeini's call last week, revolutionary institutions and leaders in Iran have hurried to show readiness to support a greater war effort in their respective ways.

Mr Rafsanjani echoed official surprise, saying: "His words were so serious I thought for a movement we should abandon parliament and go the front."

"He has made a definitive religious statement ... He has understood things we do not understand," he said.

"Those who can bear arms must be ready. If we allow the enemy to prepare itself again (the war) might take longer," he said, referring to Iraqi shock when Iranian forces overran the strategic tip of Iraq's southern Faw peninsula in February.

S. Africa faces three-day strike

BY JIM JONES IN JOHANNESBURG

THE CALL at the weekend for a three-day national strike in South Africa in June will be a major test of the anti-apartheid movement's ability to mobilise black workers as black insurrection continues throughout the country despite the lifting of the state of emergency.

Due to start on June 16, the 10th anniversary of the Soweto uprising, the stoppage was called by delegates at a conference in Durban organised by the National Education Crisis Committee (NECC).

The delegates, from a broad range of black educational, civic and labour organisations, adopted a conciliatory attitude on the conference's central issue—that of a schools boycott. Even though the government has failed to accede to calls for educational reform, the conference urged children not to boycott classes when schools reopen tomorrow.

Last December, the Soweto Parents' Crisis Committee demanded free tuition and school books for children of all races, finance for the rebuilding of schools, the withdrawal of troops from the townships and the end to a ban on the Congress of South African students (Cosas).

Students have been in the front line for two years of black township protest which has claimed nearly 1,400 lives.

Last weekend's conference, which also urged adults to refuse to pay rent and to boycott white shops, was itself the subject of violence when delegates were attacked by an alleged member of Inkatha, the Zulu organisation. Two people were killed and more than 20 injured.

Folling the unrest last week when 21 people were killed in two incidents alone, it is becoming increasingly difficult to ascertain whether there is an actual upsurge of rebellion in the townships or whether police responses to black protests and the anarchistic mood of township residents are becoming more brutal.

As the opposition Progressive Federal Party (PFP) has been quick to point out, the government has still not addressed the real causes of the insurrection.

The violence in the townships is in part attributable to the lack of legitimate, representative political outlets which, in turn, has led black South Africans into violent confrontation with the state's machinery. With no other avenues to express frustration and impatience, they turn on the nearest symbols of their oppression — the police, the authorities and all who are regarded as collaborators

The lifting of the state of emergency did not mean the disappearance of the instruments of repression from township doorsteps. The police presence only serves to stoke the fires of discontent.

One explanation for the two incidents last week which claimed 21 lives is that the unrest has taken its toll of the police. It has overstretched them, left them overworked and twitchy, ready to pull the trigger against any restive crowd.

S. Korean opposition rally draws 50,000

THE South Korean opposition's campaign for democratic reform was given new impetus on Sunday as about 50,000 people gathered in the city of Kwangju in the largest rally yet for constitutional reform, writes Steven Butler in Kwangju, South Korea.

A peaceful atmosphere persisted for most of the day as a series of opposition leaders called for an end to "military dictatorship" in South Korea.

After most of the crowd which was much smaller according to government estimates had dispersed students clashed with police and about 70 students were reportedly arrested. The rally was one of a series called to promote a signature campaign for direct election of the president.

The Government has refused to consider constitutional reform prior to 1989, when a new president will have been inaugurated.

Kwangju was the site of a week-long bloody uprising against the Government in May 1980, after martial law was declared.

On Sunday the crowd pushed back a line of uniformed police back across a large downtown plaza.

Leading dissident Kim Dae-Jung was stopped by police in Seoul from travelling to the rally.

HK lending rate rises

Hong Kong's prime lending rate has been raised by one percentage point, from 7 per cent to 8 per cent, as the Hong Kong Association of Banks has moved to defend the local currency against substantial switching into US dollar accounts, and into the strengthening Japanese yen and European currencies, David Dodwell writes from Hong Kong. The increase, which takes effect today, is the first since last September.

Rockets fired in Tokyo

Two rockets were fired yesterday at the residence of Japan's Crown Prince Akihito and a nearby state guest house which will be used in the May Tokyo summit, but both missiles failed to explode, police said, Reuter reports.

Attacks with home-made rockets were launched last week against the US embassy and the palace of Emperor Hirohito, the Crown Prince's father.

The radical left-wing Senki (Battle Flag) group claimed responsibility for the attacks, in which there were no casualties.

Mozambique air crash

A Mozambican air force plane crashed on takeoff at the northern Indian Ocean town of Pemba, killing 44 people on board in Mozambique's worst air disaster, the official Mozambican news agency reported yesterday, AP reports.

Japan trade surplus

Japan's current account surplus rose to $3.94bn (£2.67bn) in February from $1.88bn surplus in January and $2.53bn a year earlier, the Finance Ministry said, Reuter reports from Tokyo. The February trade surplus surged to $4.78bn last month from a $2.39bn surplus in January and a $3.28bn surplus in February 1985.

Bail-out pledge by Israel

By Andrew Whitley in Tel Aviv

THE COALITION National Unity Government in Israel has effectively abandoned its pledge to maintain strict monetary austerity, agreeing to provide troubled sectors of the economy with $350m (£253m) in emergency financial assistance.

The Cabinet's decision to approve direct and indirect help for the construction and cotton industries, together with the country's deeply-indebted health schemes, came on the eve of last night's scheduled Knesset vote on the 1986-87 national budget.

Despite last-minute resistance from Labour Party members opposed to proposed new taxes on social benefits, the Shekels 30.3bn (£15.3bn) budget was expected to be approved broadly as presented to the Knesset in January.

Yesterday was the last day of the Israeli financial year, and thus the last possible moment for the passage of a budget aimed at preserving the recent dramatic fall in inflation and reducing state deficit spending.

Sunday's Cabinet decision to permit two trades union-owned concerns—Solel Boneh, the giant construction company, and Kupat Holim Clalit, a national health service—to raise $180m on the domestic money markets—marked a signal political victory for Mr Shimon Peres, the Prime Minister.

Strenuous opposition to baling out the concerns from Mr Peres' coalition partners in the Likud bloc, notably Mr Yitzhak Moda'i, the austerity-minded Finance Minister, has delayed the approval of the new budget for weeks.

But, in the end, agreement was reached without much dissent. Approval of the rescue package is now expected to clear the way for agreement with the Histradrut, the trades union federation, within the coming weeks on a new national wages agreement.

Canadian energy industry cuts spending

By Bernard Simon in Toronto

CANADIAN OIL and gas producers have cut their capital spending plans by more than a third this year as a result of the slump in oil prices.

According to the Calgary-based Canadian Petroleum Association, the industry's capital investment is expected to fall to C$7bn (£3.36bn) this year from C$10.5bn in 1985. Prior to the recent fall in oil prices, spending had been forecast to rise to C$11.2bn.

The number of wells drilled is expected to fall from 12,000 in 1985 to 7,900. New wells—mainly in Alberta and Saskatchewan—reached a record 3,900 in the first quarter of 1986, but activity is likely to tail off sharply when drilling resumes after the month-long spring thaw.

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Belgian Cabinet agrees first set of spending cuts

BY IVO DAWNAY IN BRUSSELS

THE Belgian Cabinet reached agreement at a marathon session at the weekend on the first tranche of austerity measures aimed at reducing its budget deficit.

The first measures, taken under special decree powers authorised by parliament last week, centre on wage indexation and cuts in education spending.

On wages, the Government is to restrain the normal indexation process by keeping rises two percentage points below their normal increase. The saving must be passed back to the Government by employers.

The education budget is being cut by about BFr 10bn (£143m), with most of the savings coming in reduction imposed on school building and renovation programmes.

But more fundamental decisions on how to restrain spending by about BFr 200bn in the current budget are expected to come later this month.

The Cabinet is expected to resume talks on the cuts on Thursday, with the intention of reining in expenditure sufficiently to cut its deficit from the current 12 per cent of GNP to 8 per cent.

The Government's ability to act on economic strategy has been substantially enhanced by Parliament's agreement last week to allow it special decree powers. This will bring some cheer to Mr Wilfried Martens' centre-right coalition which has suffered a dramatic loss of popularity since it was returned to office in October last year.

The latest opinion poll shows that support for the Government dropped from 45 per cent at the beginning of the year to 29 per cent last week.

Wide opposiiton to the austerity measures is anticipated, however, particularly over the efforts to reduce the impact of wage indexation. The Government fears that its supporters in the Flemish Christian trade unions may join the socialist unions in opposing the move.

W. German police arrest 68 in peace protest clash

BY RUPERT CORNWELL IN BONN

POLICE arrested 68 people yesterday after sporadic clashes broke out during a mass demonstration organised by peace groups and West Germany's political left against the country's first nuclear reprocessing plant at Wackersdorf in Bavaria.

The rally at the Wackersdorf site, where preliminary construction work has begun, was the centrepiece of traditional Easter weekend marches throughout the country, which attracted up to 360,000 participants.

Organisers claimed last night that up to 100,000 people braved the wet weather to protest at Wackersdorf, although police estimates put the figure at only 30,000.

According to eyewitnesses, the arrests happened after police had used water cannons employing irritant gases against a group of 150 demonstrators who had tried to break through fencing around the site itself, guarded by heavy contingents of police.

However, worse trouble appears to have been averted by a pre-emptive police strike on Saturday, when the authorities cleared encampments of protestors near the site. In the process they discovered caches of explosives and other equipment apparently intended for use yesterday. By yesterday morning, however, all 280 people taken into custody had been released.

Apart from the protest at Wackersdorf, where the planned reprocessing plant has been vehemently but vainly opposed by the local council as well as the Social Democrat Party in Bavaria, the other 150-odd rallies held throughout the country passed off without violence.

Most were directed against the US space-based Strategic Defence Initiative (SDI). Bonn signed SDI agreements in Washington last week.

Fears grow that Beirut guerrilla battles will spread

BY NORA BOUSTANY IN BEIRUT

SHI'ITE Amal militiamen and Palestinian guerrillas holed up in shanty towns at the southern edge of the Lebanese capital fought sporadic battles yesterday as fears grew that the fighting would spread to other parts of Beirut.

The shooting, which began on Good Friday, appeared to be dying down at midday, but continuous sniping kept the main entrance to Chatila camp hazardous. Amal and the guerrillas traded accusations of ceasefire violations amid rising concern of a repeat of the bitter camp war which left some 600 people dead and 2,500 wounded in May and June last year. Fourteen people have been killed and 30 injured in the recent upsurge of hostilities around the camps.

Amal Commander Abu Mohammed charged that Palestinian loyal to Mr Yassir Arafat, leader of the Palestine Liberation Organisation, "were constantly violating the ceasefires arranged by a truce committee." At the northern Chatila exit, however, guerrillas blamed Amal for the violations.

"They are not committed to keeping things quiet. We are taking decisions to stop the fighting but we cannot find anyone willing to implement them on the other side." Abu Muhammed, a bearded Amal official, complained as he ordered his men not to respond to Palestinian sniping a few yards away.

Asked if the Shi'ite-Palestinian conflict would spread beyond the camp, Abu Mohammed responded: "That is what we fear." Moslem and leftist forces are opposed to the dominance of the Shi'ite Amal movement over West Beirut and may yet throw in their lot with Palestinian fighters to loosen the hold of Shi'ite leader Mr Nabih Berri over their part of the capital.

The Amal commander had to shout at his men to stop them responding to Palestinian snipers across a deserted red earth road. The Lebanese Red Cross managed to enter the camp late on Sunday to evacuate three dead Palestinians. Abu Mohammed blamed the internal security force, the Sunni-Moslem Lebanese police force, for lax control which he claimed "allowed arms and ammunition to filter through to the guerrillas on trucks laden with sand and cement."

Rome acts to curb spread of suspect wine

By James Buxton in Rome

ITALY IS urgently putting into effect measures to stem the damage to wine producers caused by the spread of adulterated wine, which at the weekend caused the eleventh death in the past two weeks.

Mr Filippo Maria Pandolfi, the Minister of Agriculture, has issued a decree which requires all Italian wine exports to be accompanied by a certificate from official laboratories guaranteeing that they contain no more than the legal quantity of methyl alcohol.

As the number of those killed or made seriously ill rises, more and more suspected wine is being seized by the police in shops all over northern Italy.

The authorities are dismayed that the publicity given to the dangers of drinking cheap wines does not seem to be having an effect on all consumers.

Five men are in custody accused of causing deaths and injuries by means of poisoned wine, as well as of breaking the law on the methyl alcohol content permitted in wine. Four of the men come from Piedmont, in north west Italy, the fifth from Apulia, in the south east.

However, it appears that some of the wine originates from other regions.

It is still not clear how the lethal wine is made. In some cases it appears to be made without the use of grapes and concocted out of water, sugar, powder and methyl alcohol or methanol which can be bought from distilleries making spirits or as a commercial product used for thinning paint.

In other cases methyl alcohol is added to poorer wines to give a higher alcohol content.

Acquitted Bulgarian set to leave Italy

By Our Rome Correspondent

THE ITALIAN authorities may today allow Sergei Antonov, the Bulgarian airline official acquitted of plotting to murder Pope John Paul II in May 1981, to leave the country. His departure had been held up as magistrates waited to see whether the prosecution wished to appeal against the acquittal.

After a trial which began more than ten months ago, six of the eight accused were acquitted for lack of evidence of conspiring to assassinate the Pope. The acquitted are Antonov, two Bulgarian officials who were tried in absentia, and three Turks, one of whom was tried in absentia. A seventh man, Bekir Celenk, died in Turkey during the trial. The eighth, Ali Agca, who tried to kill the Pope, received a year's imprisonment for illegally bringing a weapon into Italy. He is already serving a life sentence for attempted murder.

The wording of the judgment does not allow those acquitted to leave the court without a stain on their character. But it does mean that the prosecution failed to demonstrate a connection with the Bulgarian Government in the attempted assassination of the Pope.

The case against the Bulgarians failed partly because the evidence against them was weak and partly because, from the first day of the trial, Ali Agca made it clear that he did not intend to co-operate seriously with the prosecution in giving evidence.

US set to reaffirm support for Seoul

FEARS THAT North Korea may try to sabotage this year's Asian Games and the 1988 Olympics in Seoul will be discussed with Mr Caspar Weinberger, US Defence Secretary, this week, officials said, Reuter reports from Seoul.

Mr Weinberger, who arrives today for regular US-Korean security consultations tomorrow and Thursday, is expected to reaffirm Washington's commitment to South Korean security during talks with President Chun Doo Hwan and other government leaders, the officials said.

Seoul is the first stop on an Asian tour that will take Mr Weinberger to Japan, the Philippines – where he will be the most senior US official to hold talks with the month-old Government of President Corazon Aquino – Thailand, Indonesia and Australia.

The Defence Ministry said the Seoul talks were aimed at ensuring that combined US-South Korean forces had the capability of "deterring aggression on the Korean peninsula and, if deterrence fails, of quickly defeating such aggression."

One official said: "We hope to discuss ways to deter the communist North from sabotaging the Asian Games and the Olympics."

North Korea, angry at the choice of Seoul for both events, wants the 1988 Olympic Games to be shared equally between the two Korean states, a demand the South has rejected.

Mr Weinberger's visit coincides with annual joint military exercises involving more than 200,000 US and South Korean troops.

North Korea, which fought a war with the South from 1950 to 1953, denounced the 10-week exercises as a "rehearsal for northward aggression" and broke off all talks with Seoul.

US and South Korean officials say the North enjoys a two-to-one military advantage over the South.

Gen William Livsey, commander of the 40,000-strong US forces based in South Korea, told business leaders last week the next two to three years would be crucial to security on the peninsula.

In spite of increasing demands by militant South Korean students for an end to US support for what they call Mr Chun's military dictatorship, Washington remains firmly committed to the defence of South Korea, a staunch Asian ally.

The Reagan Administration has asked Congress to approve $230m in military credits to Seoul for 1987, saying the country is "entering perhaps its most dangerous era in 30 years."

Mr Weinberger goes to Japan on Thursday for talks with Prime Minister Yasuhiro Nakasone, Mr Koichi Kato, Defence Minister, and Mr Shintaro Abe, Foreign Minister.

Japanese officials said talks were expected to include Tokyo's possible research role in Mr Reagan's Strategic Defence Initiative (Star Wars) project, and prospects of providing a site for a new base for US Navy jets.

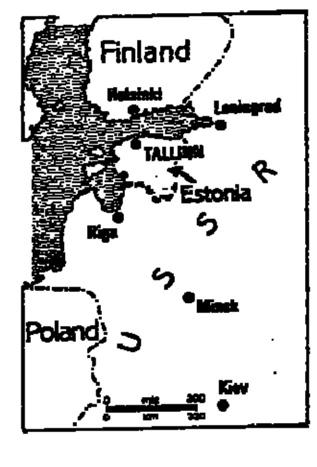
Mr Weinberger leaves Japan on Sunday for Manila where he is due to hold talks with President Aquino, Mr Juan Ponce Enrilo, Defence Minister, and Armed Forces chief Fidel Ramos.

The Manila visit is especially important for the Aquino Government, which wants to negotiate a ceasefire with communist rebels and re-equip and improve the efficiency of its armed forces.

There have been contradictory signals from the rebel New People's Army to the peace overtures and there seems to have been only a slight decrease in guerrilla activity since Mrs Aquino took power when Mr Ferdinand Marcos fled into exile last month.

David Buchan meets an unknown Baltic Foreign Minister

Playing hide and seek with Mr Gren



OF WHICH territory is Mr Arnold Gren Foreign Minister? Perhaps, you surmise, one of the smaller Caribbean islands. Wrong. Estonia, where Arnold is a common name.

But, you say, isn't that one of those Baltic states incorporated (to use a neutral term) into the Soviet Union by Stalin in 1940?

Right. So, Mr Eduard Shevardnadze runs Estonian foreign policy from Moscow. Yes, but with a little help from Mr Gren and a staff of 11 in his ministry.

One of the oddities of the Soviet system is that each of its 15 republics has a Foreign Minister and ministry, designed like the separate seats for Byelo-Russia and the Ukraine at the UN, to underscore a certain national autonomy for republics.

So, what does Mr Gren do that Mr Shevardnadze does not? Dealing with consular inquiries from the 100,000-strong Estonian diaspora in the West, training a few Soviet diplomats in ways to cope with Estonian emigrés abroad, and joining or leading a few Soviet delegations abroad.

So says Mr Gren, 65, in the office he has occupied for a quarter of a century in the pink and white former Tsarist Governor's palace in Tallinn.

But most Western countries do not formally recognise Soviet control over Estonia and the other Baltic states.

Indeed, the Reagan Administration recently made its non-recognition more pointed by switching Estonian language transmissions from Radio Liberty, the Munich station that beams to the Soviet Union, to Radio Free Europe, its sister-station that broadcasts to Eastern Europe.

Soviet Estonia has stood the test of time — 45 years, says Mr Gren.

But Mr K. G. Vaino, the republic's party chief, complained at this month's Soviet Party congress that his republic was "in the front zone of psychological war," waged by the US-financed radio stations.

There, he said, they "shout" about the Russification of Estonia, an issue on which Estonian officials are acutely sensitive.

In fact, from the latters' viewpoint, the main problem would seem to be inadequate "Sovietisation" of Estonians, particularly the young, whose lack of Soviet moral fibre was the subject of an official Kremlin rebuke in 1984.

Western diplomats play "a children's game" with Estonia, says Mr Gren.

It is certainly a form of hide-and-seek, in which Western diplomats, but hardly ever ambassadors, travel from Moscow and Leningrad to Estonia for trips which may even be organised by Mr Gren's ministry but do not involve meeting the minister himself.

This was exactly the case when the US Consul-General recently visited from Leningrad. The French ambassador saw the Comédie Française play in Estonia last year, but as a private tourist.

Informal recognition is easier to come by. Finland, for instance, has never formally recognised Estonia's post-war status, but relations between the two could hardly be closer. Britain has never allowed its Moscow envoy to step inside the republic.

But it effectively accepted Soviet Estonia, says Mr Gren, when in 1967 it took more than $6m (£4.2m) in war-time Estonian gold assets as compensation for earlier claims against the Soviet Bolsheviks.

Nevertheless, Mr Gren feels Western diplomats are "too formal" when they visit his republic. They should relax, and come and see him in his pink-and-white palace.

Italy's annual inflation rate falls to 7.2%

ITALY's annual inflation rate, as measured by the cost of living index, was at its lowest level in March since 1972.

The annual rate of increase was 7.2 per cent, compared with a rate of 7.6 per cent in February. In March 1985 the rate was 8.6 per cent, writes James Buxton in Rome.

Italy's trade balance in February for the first time showed some of the benefits of the fall in crude oil prices and in the dollar. The deficit was L1,510bn (£645m) compared with a deficit of L3,136bn in January.

Imports were L14,370bn, fractionally below the levels they reached in February 1985, but exports at L12,860bn were 13.8 per cent above the level for that month.

Moscow expected to maintain arms output

TWO US intelligence agencies said yesterday that the Soviet Union would maintain its strategic arms output despite Moscow's goal of improving sluggish economy by modernising industry, Reuter reports from Washington.

The Central Intelligence Agency (CIA) and Defence Intelligence Agency (DIA) also told Congress in a joint report their revised estimates of Soviet economic growth show growth of less than 2 per cent in the last two years.

Earlier intelligence reports had put growth after inflation at or above 2 per cent in 1985 and 1984.

Soviet leader Mikhail Gorbachev, who inherited a powerful military establishment but a troubled economy, has made economic growth a major goal by improving outdated civilian industrial plant.

This could lead to fierce competition for steel and other resources between industrial planners and the military, the US agencies said.

But their report added that because of past heavy investment in military assembly lines which cannot easily be converted to civilian use, "the industrial modernisation goals are unlikely to significantly impede the completion of the major deployments of strategic weapons that the Soviets have programmed through the 1980s."

"Thus Gorbachev can coast for a few years on the strength of past investment in the military - industrial complex, which will permit the continued modernisation of the Soviet Union's strategic and conventional forces," the report said.

The real test will come in several years when defence industries must tool up for a new generation of weapons in the face of resource allocation, it said.

Mr Richard Kaufman, an analyst on the Congressional Economic Committee where the report was presented secretly 11 days ago, said questions remained over whether Soviet economic goals could be met without slowing defence.

Releasing the report, Democratic Senator William Proxmire said: "The latest intelligence assessment shows a Soviet Union struggling to regain the path of sustained rapid growth. If I am correct, Gorbachev's efforts may be doomed unless there is a real cutback in defence."

The agencies revised their measure of the Soviet economy, or Gross National Product (GNP), by using 1982 prices instead of the old method of using 1970 prices. As a result of what they called a major revision, they estimated that total economic growth after inflation had been much slower than previously calculated.

In 1985 preliminary estimates, they put Soviet GNP after inflation at 1.6 per cent, compared with 2.1 per cent previously. For 1984, the new estimate is 1.5 per cent compared with 2 per cent using 1972 dollars.

In earlier years, the agencies had said the annual growth of Soviet defence spending started slowing in the 1970s from about 4 per cent to 2 per cent a year. However, they now believe the slowdown started in 1975, two years earlier than previously believed.

But the estimate of defence spending as a share of the total economy was calculated by the agencies as rising from 12 to 14 per cent in the early 1970s to 15 to 17 per cent in the early 1980s.

By comparison, in 1970 the US spent 8.2 per cent of its total economic output on defence, and President Ronald Reagan estimated 6.4 per cent was spent in 1985.

WORLD TRADE NEWS

Oil price fall may herald slacker growth in East-West trade

BY DAVID BUCHAN

THE COLLAPSE of world oil prices this year, coupled with uncertainty over future Soviet oil output and East European energy exports, may herald "a new phase" of slacker growth in East-West trade.

This is the key conclusion of a report by the UN Economic Commission for Europe (ECE), the only organisation to group both eastern and western countries.

It highlights the structural weakness for the Soviet Union of depending on fuels for 80 per cent of its hard currency export earnings, and for the six East European members of Comecon — Bulgaria, East Germany, Czechoslovakia, Poland, Hungary, Romania — of relying on energy for a quarter of their collective hard currency revenue.

Even assuming oil prices stabilise at $15-20 per barrel, the EEC estimates Soviet convertible currency earnings this year could fall by 17-22 per cent, or $4-5bn (£2.8m-£3.5m).

The full impact, the report published today, says, will be felt only gradually, but it will probably drag down prices for gas and petrochemical products, perhaps knocking a further 4-7 per cent, or $1-2bn, of Soviet hard currency earnings this year.

The impact on Eastern Europe is less dramatic yet double-edged. The countries there import some Opec oil: but the region's exports to the West are one-quarter in the form of fuels, and two-thirds of that in petroleum products.

CHANGING VALUES IN EAST-WEST TRADE
(% changes over same period of previous year)

	Western exports to			Western imports from		
	1983	1984	1985 Jan.-Sept.	1983	1984	1985 Jan.-Sept.
Soviet Union	−4	−2	−4	−3	3	−11
Eastern Europe	−5	−5	3	1	10	−5

The ECE hopes that the cash crunch will spur recent Soviet-style reforms to improve industrial modernisation and the export competitiveness of Comecon's manufactured goods.

But it is hard to see how managerial reforms can, in the short run, reduce Soviet bloc dependence on volatile world oil and commodity markets for a large slice of its hard currency revenue.

The only silver lining the ECE can detect is that lower Opec prices may increase Western demand for imports, and of Comecon profiting from this.

MEDIUM AND LONG TERM BORROWINGS IN 1985 ($m)

Bulgaria	475
Czechoslovakia	122
East Germany	1,173
Hungary	1,578
Poland	—
Romania	150
Soviet Union	1,489
Comecon Banks	250

The report highlights the degree to which East-West trade has been buoyed by Eastern energy earnings. In 1973-80 $16.7bn of the total $22bn increase in Soviet exports to the West, and $4.3bn of the total $14.5bn East European increase in exports, came from energy. From 1980 to 1984, energy was the only major commodity in East bloc exports to the West to show growth.

Though oil prices only began to drop sharply last autumn, the Eastern bloc's worsening trade position was clear by the end of the third quarter of last year.

The West narrowed its trade deficit with Eastern Europe collectively, from $4.7bn in 1984 to $2.1bn in January-September last year, and turned a $3.2bn deficit with the Soviet Union into a $1.7bn surplus over the same period.

The Comecon countries' new five-year plans call for increased capital investment in 1986-90, particularly in the Soviet Union.

This should favour, says the ECE, higher sales of Western engineering goods which have recently been given third or fourth place in Comecon import priorities.

But how can the East pay for more imports if it has fewer exports? Last year the Soviet Union and Eastern Europe borrowed a record $3.3bn, but only the Soviet Union really spent the money on imports.

Eastern Europe generally used the loans to boost assets and improve its debt structure, without increasing net debt levels.

The ECE believes, however, that the rate of borrowing may not be maintained this year and that Eastern imports could be sluggish if export revenues remained weak or declined.

Sharp rise in yen takes toll of Japanese export contracts

BY CARLA RAPOPORT IN TOKYO

THE SHARP appreciation of the yen took its toll on Japanese export contracts in February. Japan's 13 leading trading houses reported that export contracts last month dropped by 24.5 per cent from a year ago to Y1,057bn (£3.1bn).

The 13 trading companies account for about 60 per cent of Japan's total trade providing a good indicator of trends in foreign trade.

The lower price of oil and the stronger yen also reduced the value of import contracts, which dropped by 21.9 per cent from a year earlier to Y1,094bn.

The largest losers in export contracts were plant equipment, down 49.2 per cent, ships (39 per cent), chemicals (27.5 per cent), textiles (22.8 per cent) and steel (17.4 per cent).

The yen's sharper appreciation against the dollar as opposed to European currencies was apparent as exports to the US in February fell 25 per cent in yen terms, but exports to Western Europe were worth 20.7 per cent more, for the sixth straight year-on-year advance.

Energy imports to Japan plunged by 43.4 per cent, with the value of imports from the Middle East down 50 per cent. Imports from the US slumped by 22.5 per cent.

● Japan's exports of vehicles in February increased by 13.8 per cent to the highest monthly total for February on record. The Japan Automobile Manufacturers' Association said that the rise was due to the increased sales of Japanese cars in the middle and high-price range.

The exports totalled 568,751 cars, trucks and buses, with a value of more than $4bn, up 36 per cent from the same month last year and the second largest monthly value on record.

● JAPANESE steel companies are to limit exports of steel pipes to the US until May, according to officials at Japan's Ministry for International Trade and Industry (Miti).

Miti instructed five steel companies to restrict steel pipe exports after requests from US officials who were seeking to minimise the effect on US pipe markets hit by the downturn in oil development in the US.

US demand for oil well pipes is estimated at 1.5m tonnes this year, down 40 per cent on original estimates for 1986.

Under existing voluntary restraint on steel exports to the US market, this year's quota on oil-well pipe shipments is set at 240,000 tons.

Philips plans new venture in Taiwan

By Laura Raun in Amsterdam

PHILIPS, the Dutch electronics concern, plans to set up a joint venture in Taiwan with Avnet, a major US electronics components maker, to produce assembly kits for compact disk players.

The joint venture, to be called Compact Disk Industries Company, is aimed at meeting the rapidly growing demand for assembly kits from other manufacturers.

Philips, which invented the compact disc player, plans to invest heavily in expanding its own production capacity this year to keep up with the growth in the market.

Avnet, which operates in Taiwan, will supply large-scale low-cost manufacturing facilities for the joint venture, which will be located at the Heinchu Science Park near Taipei. Philips will provide research and development product design and components from its Hasselt factory in Belgium.

Philips declined to reveal the amount of investment and production capacity of the joint venture.

The company recently announced plans to invest $40m (£28.5m) in a Taipei-backed integrated circuit plant.

EEC adjusts curbs on some US imports

By Our Trade Staff

COMMON MARKET import restrictions on some US products, first imposed two years ago in retaliation for US action against EEC steel exports, have been changed.

Five kinds of goods—styrene, polyethylene, sporting guns, athletics equipment and skis—formerly restricted by quota can now be freely imported subject to tariff quotas, the UK Department of Trade said.

That means the tariff paid rises according to the amount imported.

Three new items have been made subject to quotas. They are bovine fats for industrial use, certain fertilisers (monoammonium, diammonium and orthophosphates) and some coated paper and board.

The new controls were decided by the EEC last month. They run until the end of the year.

UK to give India soft loans of £75m-£100m

By John Elliott in New Delhi

BRITAIN has decided to give India between £75m and £100m in soft loans over the next five years to finance industrial projects costing £300m in foreign exchange, in addition to its regular annual allocation of grants of over £100m.

This means that India is joining China and Indonesia as the third country selected by the UK to receive special loans connected to selected export subsidy packages introduced last year in response to pressure from British industry.

The offer was announced to the Indian Government in New Delhi yesterday by Sir Geoffrey Howe, Foreign Secretary, at the start of a three-day visit to the country.

The Indian Government has been told that the loans could be used to increase British funding for work on modernising a large steel works at Durgapur, and building a second super-thermal power station on a site at Rihand.

The loans would also be used to supply power stations by a consortium of Hawker Siddeley-John Brown-GEC, and supplying Ingersoll Rand gas turbines on a proposed 1,700 km cross-country natural gas pipeline for which final bids are now being evaluated by the Indian Government.

Other possible projects mentioned include rural telephone exchanges for which GEC has tendered, optical fibre technology being offered by GEC and STC, and a railway coach factory in the Punjab in which British Rail Engineering is interested.

During his talks with the Indian Government, Sir Geoffrey also referred to a project costing about £35m to £60m in foreign exchange for Davy McKee and Lurgi of the UK to build an 80,000-tonne zinc and lead processing plant for Hindustan Zinc.

Subject to a project appraisal by Britain's Overseas Development Administration, this would be entirely funded by grants.

The new soft loans for India would come from a global expenditure by the British Government expected to total £1bn over five years.

This forms an extension of the UK's existing aid for trade provision which provides aid to match that being offered by foreign industrial competitors.

It would account for up to 25 to 30 per cent of foreign exchange costs.

The Government provides the new funds in the form of a grant to banks which produce a comprehensive financial package. The countries receive the money in the form of soft loans for up to 25 years, plus some mixed credits.

Yugoslav arms sales

Yugoslavia exported over $2bn (£1.4bn) worth of arms and military services last year, ranging from standard weapons to tanks, aircraft and submarines, the Yugoslav newspaper Vecernje Novosti said, Reuter reports.

The sales—double the country's annual tourist income—were to a number of non-aligned countries and some industrialised states, the report added.

Yugoslavia rarely publicises military transactions and the countries were not named. But Western military experts said Libya and Iraq were among them.

SHIPPING REPORT

Broker sees clear signs of end to restructuring

BY ANDREW FISHER, SHIPPING CORRESPONDENT

ROUGH TIMES in the world's shipping industry could be coming to an end, according to a new review by a Norwegian firm of shipbrokers.

R. S. Platou of Oslo stated optimistically in its annual survey of the market: "There are clear signs that we are now approaching the end of a long and painful period of restructuring in the shipping industry."

It pointed out, however, that in the fluid and rapidly changing state of world economies, "it is quite possible that changes in sectors that affect shipping will come even faster from now on."

Also, there was still a considerable amount of overcapacity in large tankers and some types of dry-bulk tonnage. Yet Platou reckoned there would be more stable world economic growth in the next few years than in the past 15.

"Combined with a continuing reduction in tonnage and, not least, hope of a scaling-down of the world's shipbuilding capacity, in time this should create a better balance between supply and demand in shipping markets."

Last year, Platou noted, many shipowners found their finances worsening dramatically, while freight rates and ship values fell steeply from 1984 levels.

Assessing the outlook for tankers this year, it forecast that if oil prices continued to fall and Saudi Arabia took a larger share of the market, "there is a definite possibility of an increase in the overall demand for tonnage."

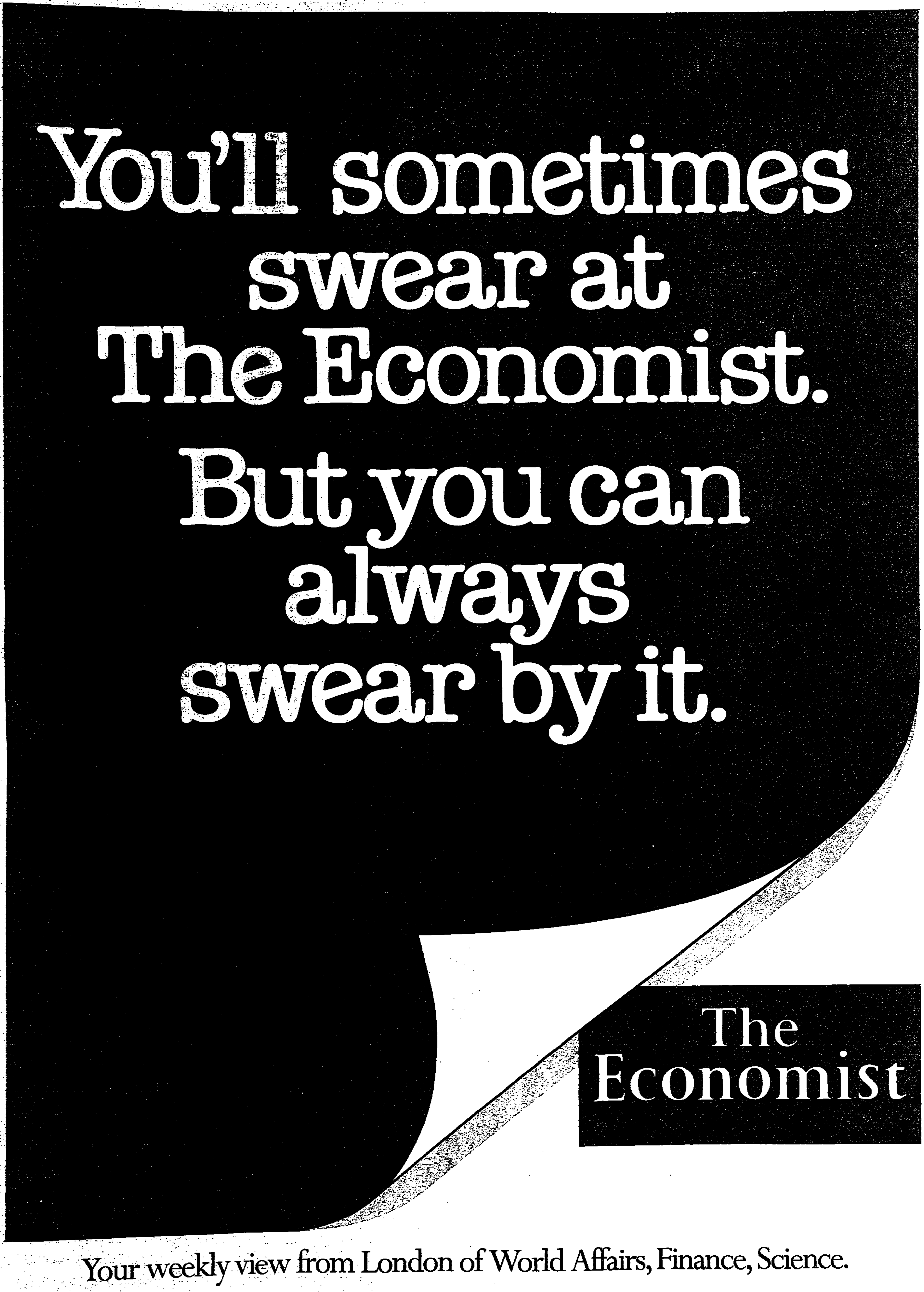
In the dry-cargo sector, demand should rise slightly. New vessel deliveries are still affecting the market and rates could ease further. But scrapping has picked up and the surplus may be reduced.

World Economic Indicators

RETAIL PRICES
(1980 = 100)

	Feb. 86	Jan. 86	Dec. 85	Feb. 85	% change over previous year
US	132.8	133.3	132.9	128.7	+3.2
UK	144.5	144.0	143.3	137.5	+5.1
W. Germany	121.4	121.6	121.4	120.5	+0.7
France	160.1	160.4	160.3	154.7	+3.5
Italy	199.3	197.9	196.9	185.1	+7.7
Belgium	142.1	142.0	141.8	138.7	+2.5
Netherlands	122.6	122.4	122.9	121.0	+1.3
	Jan. 86	Dec. 85	Nov. 85	Jan. 85	
Japan	115.5	115.2	115.1	113.8	+1.5

Source: Eurostat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UK NEWS

Tories may alter policy on regional agencies

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

PLANS to set up development agencies for some English regions are being considered by the Conservative Party. If accepted, they would be included in the party's manifesto (policy programme) at the next general election.

Three areas, the north-east, the north-west and Devon and Cornwall in south-west England are the front runners, although it is possible the West Midlands might also be included.

The one remaining part of England that has a strong concentration of regionally assisted areas, Yorkshire and Humberside, does not at present appear to be included in the proposals.

For the Conservatives, like Labour, the agencies would represent a complete change of approach since both parties have adamantly set themselves against English agencies ever since Labour set up the Scottish and Welsh Development Agencies 10 years ago.

Creation of those agencies has been bitterly resented in the North-east in particular, which has always claimed to be disadvantaged by having a powerful body on its border.

There is also pressure on ministers from officials in Whitehall to do something about co-ordinating conflicting interests within the regions. These are considered to be inimical to attempts to attract foreign investment.

Many local authorities, regional development organisations which promote inward investment, new towns and enterprise agencies are pulling in opposite directions. Senior officials of the Department of Trade and Industry (DTI) are known to be exasperated at the inability of a region to speak and act with one voice.

The prototype for a regional agency has emerged in the north-east with the recent proposal to set up a Northern Development Company comprising unions, employers, local councils, the North East Development Council and the new towns. This idea is thought to have backing within the DTI.

Many local Conservatives oppose it, however, because it would inevitably in the north-east contain an in-built Labour majority.

There are signs that the Conservative Party is thinking of using English Estates, the Government's development and property servicing arm for the English regions, as the centrepiece of its regional proposals.

It would build regional bodies around English Estates' management structure, which has recently been refashioned in such a way that local areas such as Merseyside, the south-west and East Anglia have greater management control.

Any attempt to create English development agencies would almost certainly need legislation.

Maxwell urged by Jenkins to sell two Scottish titles

BY HELEN HAGUE

CRITICISM of Mr Robert Maxwell's decision to close his two Scottish titles, The Daily Record and the Sunday Mail, intensified yesterday with a call by Mr Roy Jenkins, a leading Social Democratic Party MP, for Mr Maxwell to sell the papers.

Mr Maxwell, chairman of the Mirror Group newspapers, announced the closure over the weekend and said he plans to re-open the papers as new companies. He has given all staff, who were dismissed with the announcement, until Thursday to re-apply for their old jobs.

"He has just sacked everybody for the third time in five weeks which suggests more bombast than calm authority," said Mr Jenkins, who represents Glasgow Hillhead.

Before Mr Maxwell took over the two titles in January they had excellent records for industrial relations and profitability, Mr Jenkins added.

Mr Maxwell's office later issued a statement saying it regarded Mr Jenkins' remarks as "a cheap attempt to catch a few votes instead of trying to help the situation."

Members of the National Union of Journalists at the papers – who were sacked before Mr Maxwell's weekend announcement – met last night. The NUJ has called on the Trades Union Congress to intervene in the dispute.

Before last night's meeting, an NUJ spokesman said he was "confident" none of the 230 members at the titles would re-apply for their jobs before proper negotiations had taken place.

Mr Jenkins – whose constituency covers Anderston Quay, the Daily Record building, said last night: "Mr Maxwell's antics are as difficult to follow as their consequences are likely to be disastrous."

Teachers' union sets out demands

By David Brindle

THE ANNUAL conference of the National Union of Teachers (NUT) yesterday set out a series of strong demands on the service conditions that will be at the heart of forthcoming negotiations on a new teachers' contract.

The conference, however, did leave the union's leadership with room for manoeuvre over discussion of teachers covering for absent colleagues – one of the thorniest questions to be resolved.

This came 24 hours after the leadership defeated left-wing moves to withdraw the NUT, the biggest teachers' union, from the contract talks being held under the auspices of a panel established by the conciliation service Acas.

Yesterday, the left failed more narrowly to make it union policy that staff teachers should never have to cover for absences, so making permanent the cover boycott which caused widespread disruption in schools during the year-long pay dispute.

Instead, the union leadership forced through a policy making cover duty conditional, with a guarantee of restoration of non-teaching time spent covering and upon the employment by education authorities of sufficient "supply" or fill-in teachers.

Mr Doug McAvoy, the NUT's deputy general secretary, estimated that 49,000 supply teachers would be required nationally at an annual cost of £328m. He insisted there was no change in the union's bargaining position, though it had been made explicit for the first time.

The employers, however, are likely to be heartened by the scope for negotiation and will note particularly that the fresh NUT policy does not, as expected, specify a limit of one day on cover for each absence.

Liverpool councillors might appeal

BY IAN HAMILTON FAZEY

THE 48 Liverpool Labour councillors who face disqualification from office for losses incurred by their delay in setting last year's rate (property tax) are expected to take their case to the House of Lords.

The councillors have until Friday to decide but senior Labour Party sources on Merseyside suggest that an appeal is now "almost certain." By staying in office as long as possible, the councillors will make it even more difficult for Labour's national leadership to purge Militant Tendency, the extreme left faction, in Liverpool.

The councillors have already had indications that fund-raising for their debts is likely to prove much more difficult if they accept the decision of the Court of Appeal – which supported the penalties of surcharge and disqualifaction imposed by the district auditor.

There has also been pressure to appeal from other Labour councils, whose members believe they will be easy targets for the Audit Commission if Liverpool councillors – and the similary penalised Lambeth councillors in London – do not fight to the finish.

The situation has been complicated by last week's breakdown of disciplinary proceedings brought by the Labour Party against 12 Liverpool party members and Militant Tendency supporters.

ITV faces first levy on overseas profits

BY RAYMOND SNODDY

CHANGES in the levy system on independent television (ITV), which include a tax on overseas profits for the first time, will be effective from today.

The standard rate of levy on ITV contractors' profits will be reduced from 66.7 per cent to 45 per cent and a 22.5 per cent levy is being imposed on profits from programme sales abroad. But, in an unexpected concession, the Government has also decided to increase the "free slice" – the portion of profits which are not liable to levy – from £650,000 to £800,000.

Mr Douglas Hurd, the Home Secretary, announced the new levy rates and their date of implementation in a parliamentary written answer.

The changes will be introduced in the Finance Bill due to be published next month. The levy will not be collected under the new arrangements until the provisions have been enacted, but Mr Hurd said the changes would be effective from next Tuesday.

The changes will have a beneficial effect on small and medium-sized ITV companies which do not sell many programmes abroad. The biggest winner of all will be Scottish Television which might benefit by more than £1m a year.

UK NEWS

Inflation rate forecast to fall below 3% in 1987

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S annual inflation rate is likely to fall below 3 per cent next year, the London Business School (LBS) says today in an upbeat post-budget review of the economic outlook.

The LBS forecast, based on the assumption that oil prices will stabilise at about $15 per barrel this year and next, is more optimistic than the Treasury on the prospects for prices but slightly less confident on the outlook for growth.

It predicts that the pace of output growth will slow to 2.6 per cent this year, compared with the Treasury's forecast of 3 per cent. The annual rate of increase in the retail price index is projected to fall to 3.1 per cent in the fourth quarter of this year and to 2.5 per cent in the second half of 1987.

Next year should also see some upturn in the growth rate with output rising by 3.2 per cent, the LBS says. Imports, however, are likely to rise significantly faster than exports and Britain could face a current account deficit of £1.3bn in 1987, compared with an expected surplus of £3bn this year.

The report says that the Treasury has probably underestimated the revenue gains from its budget decision to tax the running down of pension fund surpluses. Mr Nigel Lawson, the Chancellor of the Exchequer, estimated that this would yield £20m in the coming financial year and £120m in 1987-88.

The LBS argues that the Treasury figure is based on too cautious an estimate of the size of the current surpluses, which probably amount to £50bn against an official assumption of £20bn.

The former figure suggests that the official tax-take from the running down of the surpluses could amount to over £500m in 1987-88 and then rise to above £1bn in each of the two following years.

Average earners pay more tax than under Labour Government

BY PETER RIDDELL, POLITICAL EDITOR

A MARRIED man on average earnings will still pay a higher percentage of his gross income in direct tax and national insurance contributions in the coming financial year than in 1978-79, the Labour Party's last year in government.

A parliamentary written answer from Mr John Moore, the Financial Secretary to the Treasury, shows that in 1986-87 deductions are expected to be 21.9 per cent of gross income compared with 20.9 per cent in 1978-79. The peak was 22.8 per cent in 1982-83.

Since the Tories came to power, however, the real net income of a married man with two children aged under 11 has risen by 17.4 per cent. This reflects the faster rise in earnings than prices.

The figures assume average gross weekly earnings for adult males of £213.80 in the coming financial year.

An analysis in a separate written answer shows that once value-added tax, other indirect taxes and domestic rates are included, taxes are likely to amount to about 42 per cent of gross income in the coming financial year.

The figures, provided by the Treasury every year after the budget, point to three main conclusions.

Firstly, that it is still only those on well above average earnings who have had any reduction in the relative share of their gross income taken by direct taxes of various kinds, let alone indirect taxes.

Secondly, that there has been a sharp rise in real take-home pay for those in work throughout the income scale because of the strength of real (inflation adjusted) earnings.

Finally, that differences in real take-home pay between the top and bottom of the income scale have widened substantially over the period and are continuing to widen. For instance, a married man with two children under 11 on five times average earnings has seen his real post-tax income rise by 32.4 per cent since 1978-79.

A further written answer indicates that since 1978-79 there has been a substantial real increase (after inflation) in the revenue lost, and thus benefit received, through tax relief on life assurance, mortgage interest and contribution to pension schemes.

Tory MPs back anti-apartheid group

BY OUR POLITICAL EDITOR

MORE THAN 50 Conservative MPs have agreed to support the aims of a new backbench group calling for fundamental change in South Africa, including open discussions with the African National Congress.

One of the main aims is "radically to alter public perception, in this country and in South Africa itself, of the Conservative Party's attitude towards South Africa."

The group, Conservatives for Fundamental Change in South Africa, has been set up by backbenchers Mr Robert Adley, Mr Hugh Dykes and Mr Tim Rathbone after a visit to South Africa.

In a letter to fellow backbenchers, they have argued that it was essential for the Conservative Party to contain members who are actively promoting fundamental change in South Africa.

"At the moment sadly," the letter states, "our party tends to be regarded as being represented by those Conservative members who are most vocal on South African affairs and who, by their words and deeds, give succour to the South African Government and its apartheid policies, and cause despair to sensible people in South Africa."

Disruption planned at Heathrow Customs

CUSTOMS officers at Heathrow airport, London, plan to step up their union's campaign of industrial action in the run-up to the opening of the airport's fourth terminal later this month, Our Labour Staff writes.

The dispute is over revised duty rosters scheduled to be introduced when the new terminal opens. They will involve Customs officers reporting to work an hour earlier than at present, with shift times starting at 6am instead of 7am.

Nightshift working will be scaled down under the proposals and the management wants to see stronger coverage in the early morning when the day's incoming flights start to arrive.

Customs and Excise said yesterday that there were contingency plans to minimise any possible delays.

□ BRITISH RAIL chairman Sir Robert Reid will stay on until 1990, three years longer than his current appointment. Mr Nicholas Ridley, Transport Secretary, said the Government made the decision because Sir Robert was the right man to lead BR "towards better standards for customers and further improvements in efficiency."

□ BRITISH TELECOM is reducing regional charges for its System 4 conventional radio telephone service, which has been overshadowed by cellular radio mobile telephones.

BT will absorb costs of £2.5m to relaunch System 4, making it cheaper for some customers wanting limited geographic coverage. BT hopes to increase the number of System 4 subscribers to 15,000 by 1987 from 10,500 at present.

□ H. S. MARSH, makers of gamma-irradiation equipment for medical use and food preservation, has been placed in receivership. The company, which has won two Queen's Awards, had an order book worth £190,000 and employed 40 at its Reading plant, west of London.

The collapse comes at a time when the Government is expected to approve the irradiation of food for sale in Britain.

□ TSB has launched its first specialised European unit trust. The TSB fund will include the UK shares in its portfolio although the bulk will be concentrated in West German, Swiss and French issues.

Industrial countries 'may save $100bn from oil price fall'

BY MAURICE SAMUELSON

AROUND $100bn will be saved by the industrialised countries in 1986 if the oil price fails to rise above $15 a barrel, says a report in Petroleum Economist, the London-based monthly.

In a survey of the implications of the main oil exporting countries' failure to agree on production quotas, the magazine says Western Europe will gain by some $45bn, North America by $30bn and the Far East by $25bn.

Even allowing for the reduced value of North Sea crude production, Western Europe's net saving would be $34bn. The UK, as a manufacturing nation, would gain strongly despite the fall in government oil revenues.

Last year, Western Europe's net oil consuming countries (the UK and Norway excepted) spent $102bn on imported oil. This year their oil bill would be $57bn if the price averaged $15 a barrel, giving a foreign exchange saving of up to $45bn.

West Germany would be the main beneficiary, with net imports of 2.3m barrels a day and an oil bill if $22bn in 1985.

Aggregate Opec oil revenues have been falling since the 1980 peak of $279bn and last year were estimated at about $135bn, an overall drop of 52 per cent.

This year, the Petroleum Economist forecasts that Opec income will fall by a "disastrous" 45 per cent if the fall in the oil price cuts the annual weighted average to $15 a barrel.

The effects are likely to vary considerably on the individual producers. Saudi Arabia, the biggest producer, is expected to suffer least by compensating for lower prices with a relatively higher market share. By selling its nominal quota of 4.35m barrels a day this year, it would achieve a one-third gain in volume over last year, sufficient to offset the fall in price.

The worst sufferers are likely to be oil producers with large populations or limited assets, including such non-Opec members as Egypt, Mexico and Malaysia.

The report says falling export revenues would force Opec members and vulnerable non-Opec producers to reduce their imports of manufactured goods. This would have an impact on US, European and Japanese industrialists and contractors, but it would represent only a "modest offset" to the benefits which oil users would derive from lower energy costs.

There would also be some bonuses for Opec members.

Profits rise faster than incomes

BY GEORGE GRAHAM

COMPANY profits rose three times as much in Britain as personal incomes last year for the second year running. As real personal disposable incomes grew by 2 per cent, gross company trading profits increased by 6 per cent after adjusting for inflation.

For 1986, however, the Government is forecasting a 5 per cent increase in personal incomes, the largest rise since 1979. In last week's Budget Report the Treasury said it expected lower inflation and little change in earnings growth, combined with the cut in income tax, to boost consumer incomes and spending, with some increase in savings.

In figures published last week the Central Statistical Office (CSO) said wages and salaries rose by 8½ per cent in 1985, although about ¾ of a percentage point of this growth was accounted for by recovery from the coal dispute. Other income, including investment earnings, rose by 8½ per cent.

Taxes on income, however, rose by 9 per cent, and National Insurance contributions by 7½ per cent, leaving personal income 7½ per cent higher in nominal terms.

The ratio of savings to total personal disposable income fell in the fourth quarter last year to 11 per cent, its lowest level since the first quarter of 1983. Over the year the savings ratio averaged 11.7 per cent, compared with 12.2 per cent in 1984.

In separate figures, the CSO said company profits rose 17 per cent in 1985, or by 12 per cent if British Telecom – which appears in the statistics only from the date of its privatisation in November 1984 – is excluded.

Industrial and commercial companies in the North Sea oil sector saw profits decline by 4 per cent – a 9 per cent drop in real terms, while non-North Sea companies, had a 21 per cent profit increase, or 14 per cent after inflation.

Paint makers in £7m joint venture

BY IAN HAMILTON FAZEY

IN AN unprecedented act of cooperation, two expanding paint companies have started production at a new, £7m factory in Buckinghamshire, north of London.

The joint arrangement has given the companies – Cementone-Beaver and Sigma Coatings – a large, automated plant capable of flexible operation. The companies produce different types of paints and compete rarely.

Separately, each would have had to build smaller factories without computer-controlled equipment which would have been less responsive to market demand. Neither company has a big enough market in Britain to go it alone.

Cementone-Beaver is owned by C. H. Industrials and Sigma by Petrofina, the Belgian petrochemicals company. Sigma is one of the world's largest paint companies but has only a foothold in Britain, where it has been trying to expand for the last three years.

The new factory will be owned by the two companies and will be called Buckingham Coatings. Both companies stress that the venture is in no way a merger and that they will continue to trade separately.

Plant capacity of 18m litres a year can be expanded to 24m litres. C. H. Industrials' property division was responsible for building design and construction while Sigma used its worldwide experience in plant layout, equipment design and installation.

Continuing turmoil in the international paint industry and markets also underlines why the joint venture makes sense. The last two years have seen numerous paint companies in Europe change hands, with increasing concentration of ownership by big chemicals companies.

'Art film' may revive Goldcrest fortunes

By Raymond Snoddy

THE FORTUNES of Goldcrest Films and Television, the UK independent producer which has had a £20m write-off, have taken a turn for the better.

After the disastrous reception of the over-budget £19m film Revolution, an under-budget film costing about $3m is doing much better than expected.

Room With A View, based on the E.M. Forster novel and produced by the Merchant Ivory film company, was aimed at the art cinema market in the US. But Mr Ismail Merchant, whose previous films have included The Bostonians and Heat and Dust, says the film has taken $225,000 in one New York cinema in its first three weeks.

The film, which has had very good American reviews, is also doing well in Toronto and Los Angeles. "It could gross between $15m and $20m in the US market," Mr Merchant says.

Goldcrest is the largest single investor in the film and stands to make about 23 per cent of the net profits. Mr John Chambers, finance director, says that all the indications are that it will succeed in breaking out of the narrow "art house" market.

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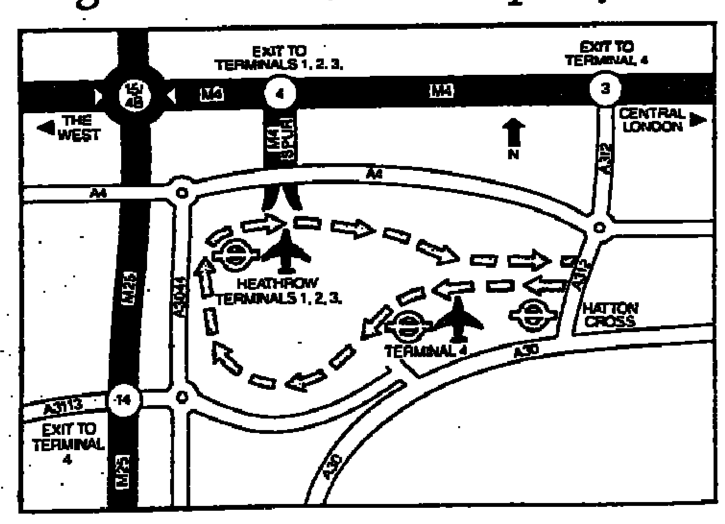

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CONSTRUCTION

A breath of French air in the City

By Joan Gray, *Construction Correspondent*

HAVING the room where Napoleon Bonaparte married Josephine as the chairman's office in your Paris headquarters is a hard act to follow—which is why Banque Paribas chose to refurbish the old Martin's Bank building in Lombard Street when it was looking for a new London office.

"We chose it because we wanted a suitably prestigious building in the City of London to follow the image set by our other headquarters," said Dr Christopher Honeyborne, Banque Paribas' deputy general manager in London.

"Our Paris headquarters is already a French National Monument; our Dutch office is an old merchant's hall in Antwerp; and our Spanish office is the former British Embassy in Madrid, so we wanted to follow the tradition."

Banque Paribas has spent £12m refurbishing the Martin's bank building, which was built in 1929 and is sited within a few hundred yards of the Bank of England.

The project has involved major construction work, gutting the structure and rebuilding it behind the preserved facade at a cost of just under £10m.

The remaining £2m plus was spent on fitting out the building with modern banking systems and offices with such features as teak panelling, rams-head pillars, and swagged and tasselled velvet curtains to give a French flavour.

The contract was designed and managed by *Higgs and Hill.*

An artist's impression of Banque Paribas' London office in Lombard Street, where Higgs and Hill is completing the refurbishment

The construction work involved scooping out three floors of redundant vaults in the basement to create an internal courtyard surrounded by offices.

The courtyard ceiling has been painted with clouds — visible at eye level from the reception desk three storeys above — to give the impression of a sunlit French sky.

The areas around the courtyard have been converted into conference and dining space, and additional space has been created by extending the upper floors into light wells and providing a new first floor within the old double-storey-height banking hall.

Dr Honeyborne decided to opt for a design and manage contract since Banque Paribas wanted a single point of responsibility in managing and controlling the complicated rebuilding process. "We wanted to have just one bottom to kick," he explains.

The contract was awarded to Higgs and Hill "because they offered the best form of contract and convinced us they had the right experience and the ability to undertake the complete job," he said—and has proved right. The two year contract has been handed over on time and on cost.

Refurbishing London Pavilion

TROLLOPE & COLLS has been awarded the main contract for the £20m redevelopment of the London Pavilion by the Grosvenor Square Properties Group and Kennedy Brookes Joint Venture.

Major contributory factor in winning the contract was an innovative method of supporting the facade without external propping.

The building works are worth about £6.5m and tenders were *submitted on a two-stage* basis. The facade is to be retained, with major reconstruction of the interior, including the addition of two floors. The basement is to be enlarged and linked with the Piccadilly underground station and the Trocadero.

The London Pavilion is in a congested area bounded by Shaftesbury Avenue, Great Windmill Street and Coventry Street. Trollope & Colls had to recommend a method of retaining the triangular facade which would allow demolition and subsequent reconstruction of the inner structure, while maintaining pedestrian and traffic flow.

A temporary structural steel frame is to be erected behind the facade on three levels, designed to allow construction of the reinforced concrete frame with minimum inconvenience. It will take seven weeks to erect, and will occupy less than 15 per cent of the working area.

Trollope & Colls starts on site in mid-May and completion is scheduled for mid-March 1988. The development will provide shopping on three levels, a large restaurant and a major exhibition to be mounted by Madame Tussauds.

£30m Glaxo project

Costain Management Design, part of Costain Group, has been awarded a £30m design and management contract by Glaxo Group, for the erection and completion of a three-storey pharmaceutical development facility at Ware in Hertfordshire. The project is due to be completed in December 1988.

★

Two contracts, worth a total of £1.3m, have been won by MYTON, part of the Taylor Woodrow Group. The company has been awarded a £680,000 contract by the Metropolitan Police for alterations and fitting out to existing buildings in Newlands Park, Sydenham, to form offices and workshops. Work has started with completion scheduled for August. Myton is also to build a £612,000 three-storey office block to extend the headquarters of the Lawn Tennis Association in Palliser Rd, Barons Court, West Kensington. The building is scheduled for completion in September.

★

EDWARD THOMPSON has secured the following contracts for civil engineering work totalling some £5.7m. A contract from British Gas East Midlands covers laying gas mains and gas *services with other works in two* zones centered on the cities of Derby and Nottingham. The work, commencing in the spring and lasting for two years, will be worth in the region of £4m. The Anglian Water Authority has accepted a tender of £400,000 for construction of a cross-country water main of 400 metres in diameter and 6 km in length, located south of Daventry. An order is being negotiated with Stanton Ironworks for the supply and delivery of ductile iron pipes during February. The completed project is due to be handed over within six months. Further contracts for water mainlaying and services have been placed by the Anglian Water Authority for the year ending March 1987 for around £1.25m in the Ely, Kings Lynn, Wisbech, Cambridge and Bury St Edmunds areas.

THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

Worming into the market for organic growth

William Dawkins reports on an unusual fertiliser franchising operation

MOST YOUNG businesses find at one time or another that persuading potential customers to take them seriously can be a considerable challenge.

But few can have found that establishing credibility was as much of an uphill battle as Bio Cultures International, a small Devon-based producer of organic fertiliser. For Bio Cultures is the British arm of LCM Holdings, the largest earthworm breeder in Europe.

"We had to spend an enormous amount on publicity to persuade people that we weren't playing the fool," says Jan Kusmirek, who has spent the past 18 months spearheading LCM's entry into the British market, where it has franchised its worm breeding system to 15 small businessmen.

As a mark of his seriousness, 39-year-old Kumirek himself paid £2,500 for an LCM worm breeding franchise last year—and as a marketing consultant for the garden products industry, he *should* be better equipped than most people to appreciate the economic potential of the humble earthworm, or Californian red as it is known by breeding buffs.

Moreover, he is not alone. Two similar ventures have been launched in the UK in the past nine months: British Earthworm Technology, the result of a Ministry of Agriculture research project into farmyard pollution, and Stimgro, the UK arm of a long established Swedish worm grower.

They all believe they have identified a growing distaste among the British gardening public for chemically based fertilisers and a preference for natural products; a trend which they point out is in tune with the fast growth being experienced by the health food industry. In short, they believe the worm's day has come.

Yet the creature itself is only a by-product of their entrepreneurial attentions. Their profits derive from selling worm casts, the odourless fine clay-like waste generated in tons by a well fed colony. This, maintains Kusmirek, is a purer and faster acting fertiliser than any organic product around. Another advantage is that unlike ordinary manure, worm waste does not damage tender young seedlings.

LCM, which made a 20 per cent profit on its £2.8m turnover in the last calendar year, is the joint creation of Gerald Jugniot, a former sales executive for a French chemicals group, and Charles de Muralt, a one time managing director of a small Dutch agro-chemicals venture.

The two men, both 46, became friends when they met on a joint sales trip to West Africa seven years ago. Jugniot had just been on holiday in Italy, where he had seen with some interest how local farmers were using breeding techniques originally invented by their Roman ancestors to produce worm casts for fertiliser. "When he said the future was in worm breeding, I just laughed at him," admitted de Muralt.

But on closer examination, the economics looked compelling. The worms themselves come almost free. "They will eat anything that's biologically destructible—hay, straw, even sewage," says de Muralt. A well fed and cared for worm will produce 12 or 15 offspring in a year and can breed even faster in warm climates.

An important part of the beginner's worm creation kit consists of a roll of tough plastic mesh, which is encircled round the breeding bed and partly buried to keep out moles. "If moles get into a worm bed, it's like letting a human loose in a room full of caviar," says de Muralt. Add 200,000 worms (which LCM supplies to its franchisees) plus two tonnes of waste and the result will be one tonne of top quality organic fertiliser within the first year, he says.

The extra worms generated in the process—more than 2.4m from the first batch alone—can either be turned into animal feed or fish bait, though de Muralt emphasises: "We are not worm sellers. We sell a system for producing fertiliser."

With enticing figures like that in mind, the two men together raised £500,000 from their own savings and private investors five years ago, registered their company in the Netherlands Antilles (for tax reasons) and started to sell six-year franchise agreements around Europe.

They were offering franchises for £2,500, which includes equipment, the installation by LCM of the franchisees' first worm bed and the advice of a local group representative drawn from LCM's 32 central staff.

Franchisees also pay £250 to join a co-operative arrangement, whereby LCM guarantees to buy their worm casts which are then bagged and sold under its own name through garden centres and supermarkets for the equivalent of around £1.50 per litre container.

LCM also charges a 12 per cent royalty on sales, part of which is repaid to individual breeders at the end of the year according to performance. De Muralt admits to some surprise at the eagerness with which this apparently eccentric business idea has been accepted all over Europe, attracting 250 enquiries in the UK alone.

The group now has 650 worm franchisees in the Netherlands, Belgium, France, Portugal, Italy and Britain, who include small farmers, fertiliser producers, and even rich doctors and dentists looking for a spare time investment-cum-hobby. Customers meanwhile include intensive growers of fruit and salad vegetables, garden shops and big chain stores like Mamut in France and Galerias Precioses in Spain.

However, marketing LCM across such a wide geographical area has been very costly. The group expects its turnover to rise by nearly 80 per cent to £5m this year, but around £400,000 of that will go on promotion and publicity.

The British operation alone, the newest in LCM's European worm network, has swallowed £35,000 in marketing costs. Since it takes up to two-and-a-half years for new franchisees to become commercially productive, the UK has not even started to produce worm casts for sale.

When Bio Cultures' franchisees do start producing in bulk within the next year, the toughest competition they are likely to meet, without doubt, will be from British Earthworm Technology, which by the end of last week had sold 500 tonnes of worm casts since its formation last summer.

However, the two groups are unlikely to meet head-on argues Peter Bourne, British Earthworm's sales executive, who believes that the market for worm produce has only just started to give a glimpse of its potential. "There is a tremendous amount of enthusiasm for organic products among gardeners of all kinds," he says. "We are filling an important gap in the fertiliser market and our researches indicate that that gap will be very big."

Of course, like all fashions this one could easily vanish just as easily as it appeared. But for the time being at least, Europe's worm breeders can breathe easily in the knowledge that where there is muck there is brass.

Incentives

Options for the private company

David Cohen explains how executives may receive shares, while owners retain control

A GROWING number of small businesses use share options to lure executives to join their ranks. A generous salary is all very well but share incentives hold out the hope of more exciting and less heavily taxed reward. Big public companies can easily hand out executive options without diluting substantially their other shareholders' interests. But the owners of private companies may be torn between the need to provide sufficient incentives and the wishes of the founding shareholders to retain control. There are, however, a number of ways to get round these problems.

Most public companies allow up to 5 per cent of their shares to be placed under option for the benefit of executives. But 5 per cent of the share capital of a private company may be too little to satisfy three or four executives or even one key man. That means unquoted companies may be compelled to release a considerably larger slice of their equity than their big brothers, if they are to stay competitive in the job market.

As soon as employees own more than 10 per cent of the equity they can interfere with decisions of the existing shareholders in two very important areas. If the majority owners decide to sell the company to an outsider, the purchaser will almost always insist on being able to buy all the shares without exception. Under company law, dissenting minority shareholders can be compelled to sell out if the bidder already has at least 90 per cent of the shares under his belt. So executive option holders with more than 10 per cent between them can block a compulsory buy-out and cause the deal to collapse.

Executive share options can also cause complications for companies about to go public. Any flotation needs the support of financial institutions. Though institutional investors do not object in principle to share schemes, they are usually not happy about backing a company which has more than 10 per cent of its equity under employee options.

Institutions are solely concerned with future dilution of their investments, so options exercised before the flotation are disregarded. But if outstanding options amount to more than 10 per cent, institutional investors will be decidedly wary and may either withdraw support or give it on tougher terms.

In spite of these dual dangers, many companies feel obliged to breach the 10 per cent barrier. Future difficulties, however, can often be avoided with a little advance planning.

To clear the way for a future agreed takeover, extra shares can be allotted to the existing shareholders before the grant of options. These shares have no real rights until the company is about to be taken over. They then become convertible into ordinary shares and can be included in the 90 per cent majority which the bidder needs as a platform to 100 per cent control. There must be enough new shares to dilute the old shares held by employees to 10 per cent or less of the total equity capital.

Suppose, for example, that a company has 100 shares and decides to grant options to executives over another 25. Existing shareholders need to allot themselves a bonus issue of 5 new convertible shares for every 4 currently held to be certain of being able to deliver 90 per cent to a bidder. This will result in the creation of 125 new shares bringing the total to 225 shares plus the 25 employee shares. Hence, on conversion of the new shares into ordinary equity, the employee stake is reduced to 10 per cent.

An alternative can be used on a flotation.

If a company with a share scheme has a bonus issue, the scheme rules almost always provide for an automatic adjustment to the options so as to keep the option holders in the same position as before. However, there is no legal requirement for such an adjustment. A company could provide generally for adjustments but make an exception for the case of a bonus issue prior to a flotation. That would provide all the leverage that the company needs.

Without the protection of an automatic adjustment clause, any share option, however valuable, can be made worthless by a bonus issue large enough to reduce value per share below the option price. Once this is explained to them, the executives will no doubt be prepared to exercise as many options as needed to reduce below 10 per cent the shares remaining under option.

Both these methods can be made legally watertight, but there is an outside chance that a change in the law or an unsympathetic court could upset the best-laid plans. Besides, no company will be keen on having a confrontation with its executives at a crucial stage in its development—even if it knows it can win.

With these cautionary thoughts in mind, some companies may prefer to limit share options to 10 per cent and make up the rest with so-called "phantom" options. These are just like real options, the difference being that the executive has no right to call for the shares. Instead, he receives the cash profit he would have made had he exercised a share option and sold the shares immediately.

Since no real shares are issued under a phantom, none of the problems discussed above will rise.

The disadvantage of phantom options is that they attract income tax, rather than lighter capital gains tax levied on Inland Revenue-approved option schemes.

So it will probably be necessary to increase the size of a phantom option to compensate for the extra tax. Phantom options are also liable for Employers' National Insurance Contributions of 10.45 per cent. But on the credit side, they are deductible for corporation tax purposes while the dilution costs of an approved scheme are not.

David H. Cohen is a partner in Nicholson, Graham & Jones, Solicitors.

In brief...

FIVE ventures last week received prizes worth £5,000 each in the 17th annual British Export Awards for Smaller Businesses.

The competition, sponsored by the British Overseas Trade Board with British Caledonian Airways and Thomas Cook, attracted a record 312 entries exporting a combined total of £310m annually. The winners were: Access Engineering, West Yorkshire-based makers of work platforms; Beacon Publications of Northampton, publishers of industrial directories; Brewing Products which makes home brewing wine and beer kits in County Durham; Dunkirk Metals, Nottingham makers of aluminium products from scrap; and Smith and Telford, a Scottish producer of high quality knitwear.

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THE Department of the Environment and the Welsh Office have published a simplified guide to the planning system for people starting up or running small businesses.

The 32-page booklet, entitled *Planning Permission for Small Businesses: A Step by Step Guide*, will help entrepreneurs decide whether they need planning permission and how to get it. Copies have been sent to local authorities and can also be ordered from the Department of the Environment, Distribution Section, Building 3, Victoria Road, South Ruislip, HA4 0NZ.

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A ONE-DAY seminar on management buy-outs is to be held at London's Cavendish Conference Centre on Tuesday June 10.

Venture capitalists, accountants and lawyers will be giving presentations on the nature and consequences of buy-outs, deal structures, relationships between management teams and their professional advisers and legal and tax implications. Tickets cost £190 from Lisa Hamilton-Price, Legal Studies and Services, Bath House, Holborn Viaduct, London EC1A 2EX. Tel 01-236 4080.

●

FREE courses are to be held later this month in Southend for people who want to start their own businesses or expand existing ventures.

Sponsored by the Manpower Services Commission and managed by Enterprise Courses, a Southend-based small business advisory group, the courses will be introduced at a seminar next Monday at the town's Airport Moat House. Details from Enterprise Courses on 0245 350595.

TECHNOLOGY

Nick Garnett on Perkin's new range of diesel engines which feature a revolutionary combustion chamber design

Rolling in clover

POWERFUL, sometimes noisy but always the trusted work-horse of the truck industry, the diesel engine has rarely been the subject of significant leap forwards in technology.

Perkins Engines of the UK, with a little help from the nuclear industry, is claiming to have broken this mould with a revolutionary combustion system for its new Phaser range of 4 and 6 litre truck engines, launched last month.

Perkins, part of the Massey Ferguson group says the design of the new chamber, called the Quadram results in eight per cent better fuel economy than its competitors, 13 per cent more power than the previous best and big torque improvements. It also makes the Phaser, the world's quietest engine in its class.

That is a long list of claims but Perkins goes even further. Because of Quadram's unique design, the company has been able to use much less sensitive fits and tolerances, changing the methods and lowering the costs of producing the engines, which are for trucks of 6 to 24 tonnes.

The company has spent £30m engineering the 90 to 186 bhp rated Phaser range at its Peterborough headquarters, England.

The range will compete with Perkins existing 4236 and 6354 engines (which will continue in production) and others like the Cummins B series—introduced four years ago—the Deutz air-cooled and those made by the integrated truck manufacturers. Perkins already claims to have two-thirds of the UK proprietary engine market across all the power bands it serves.

As part of the development cost the unique "clover leaf" Quadram, which incorporates tiny lobes into which the fuel is injected for combustion, was designed with the aid of a measuring machine adapted from the nuclear industry.

Perkins, one of the world's leading engine builders producing 400,000 units a year, had already prepared a mathematical model of what the Quadram would look and behave like. But it was searching for a piece of equipment that would verify these ideas. It turned to the nuclear industry's laser doppler anemometer (LDA), developed by the UK Atomic Energy Authority's Harwell laboratories to measure coolant flows in nuclear reactors.

This piece of equipment was adapted with the help of Harwell to measure accurately the air flows inside a cylinder as the engine is running.

By producing a more thorough and faster mix of fuel and air in the cylinder Quadram creates much improved combustion says Perkins. It has also made a big impact on the shopfloor.

"The Quadram design was so good we have been able to use much less sensitive fits and tolerances, without any compromise of the design criteria," says Mr Tony Downes, Perkins' engineering director.

This has been particularly marked for gap between the piston top and the head of the cylinder in which the piston travels.

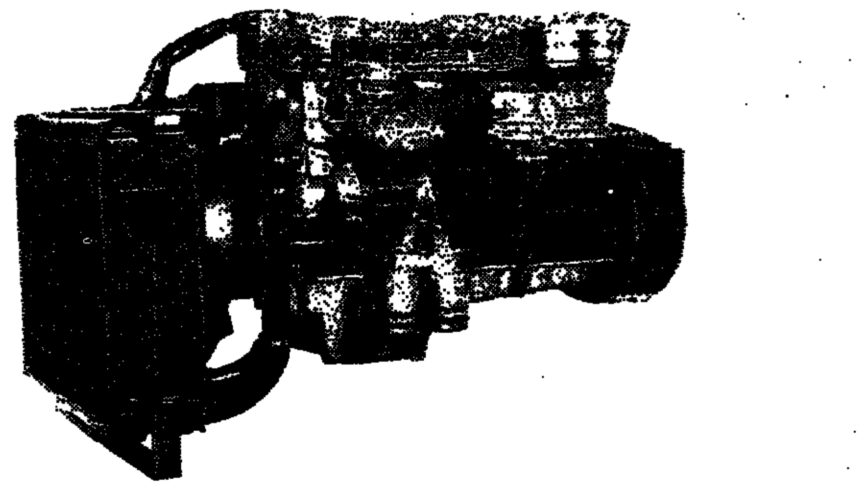
"Normally it is important to ensure that the piston comes as close to the head as possible, as the combustion relies on the air motion that the minute gap creates," says Mr Downes. "We found that with Quadram if a desired gap of 7 thousandths of an inch was expanded to 17 thousandths the engine would still work perfectly."

Such variations in a range of engines like Phaser would normally require a choice of six different piston heights to guarantee optimum performance. The Quadram needs just two.

The clover-leaf like shape is so tolerant to slight variations that Perkins die-casts the chambers rather than machining them. This is a lower-cost method of manufacture and allows Perkins' piston suppliers to make pistons based on the same die, which should improve quality.

Because the Quadram lowers stress throughout the engine, compared with traditional combustion chambers, Perkins says it has also been able to reduce the weight of the cylinder block.

Cummins claimed its B series had 30 per cent less components than a comparable Perkins engine when the B series was introduced. Perkins also claims that the Phaser has a third fewer components than its own 6354.



Top of the Phaser range, the 180 Ti

Quiet route to greater efficiency

IN DIESEL engines air enters the combustion chamber separately from fuel. These mix in the chamber and, under high pressure, cause combustion to take place.

The chamber is traditionally shaped like a circular bowl. The Quadram however, is rather like a clover leaf, with four lobes in each corner of the bowl. Fuel is injected into the lobes which, because of their constrained space, swirl the air and fuel faster.

This allows earlier combustion of the mix. As on average only 35 per cent of fuel is actually translated into horse-power in a typical diesel (the rest is lost through friction and heat) the sooner the combustion, the more efficient the engine and its use of fuel.

Burning fuel and air generates the pressure to drive the piston. The ignition delay period—the time between starting the injection of fuel and the start of combustion—is shorter in the Quadram and the rate at which pressure rises within the cylinder is lower. So too is peak pressure.

The pressure in a typical diesel is about 2,100 lbs per sq in but a Quadram operates on about 10 per cent less at its peak. The Quadram produces a curve of increasing pressure which is much flatter than a typical diesel and as a result cuts overall engine stress. This reduces loads on conrods—which link the piston to the crankshaft—on the big ends of the crankshaft and on the crankshaft itself.

Less combustion pressure means less noise. Perkins claims that the Quadram results in noise reductions of 3dBA, which it says makes it 50 per cent quieter than engines from rival manufacturers.

Security down the line from Plessey telephone

SECURE SPEECH technology has been built into a £1,500 push-button telephone instrument by Plessey of the UK.

The unit, called Voicelock, behaves as an ordinary telephone unless a red button is pressed by both speakers. Then, providing each party has entered the same code on the keyboard, subsequent speech is "scrambled." The key code can be altered by the parties at agreed intervals and there are 1bn combinations.

Before the days of digital electronics, scramblers simply divided the audio frequency spectrum (zero to about 3,000 hertz), into a number of segments using filters. The segments were rearranged in the frequency spectrum before transmission, making the speech incomprehensible unless a similar unit was used at the other end.

The Plessey system takes a similar approach using digital electronics. The speech signal is first digitised. The resulting pulse stream is then arranged in "frames" in an electronic store from which, a fraction of a second later, it is removed with the frames in a different time order. After conversion back into an (incomprehensible) analogue audio signal, the speech is sent down the phone line where a similar system at the other end reverses the process to give normal speech. More from Plessey Crypto on 051 228 0988.

POWER CABLE containing an optic fibre for communications is to be supplied by Standard Telefon og Kabelfabrik, the Norwegian subsidiary of ITT, to Statoil, the North Sea oil operator.

Under a $13.9m contract, a 4 km link will be established between Statoil's "A" and "B" platforms, currently under contruction.

This will be the first use of such a cable, which will provide interference-free communication of instrumentation data in the same cable as powerful supply currents. Since light is used for the signals, they are unaffected by the currents.

COPPER PRODUCTION by the Caprex process will be the subject of a demonstration plant to be built in Spain by ICI (UK), Nerco Minerals Company (US) and Tecnicas Reunidas of Madrid.

The Caprex process is an alternative to conventional smelting and promises substantial cost savings. It combines a chemical leaching process, electrochemistry and a solvent extraction process. Low grade ores can be treated in smaller plants, energy costs are lower and pollution problems are fewer. ICI is on 01-834 4444.

Food sorting put into focus

SORTING FOOD for defects has become more precise with a system from Sortex, a London company.

Using a newly developed scanning camera system, the model 4000API can inspect the whole width of a metre-wide conveyor belt and detect defects down to 3mm in size.

The capacity is such that peach halves for example, can be inspected at 10 tonnes per hour, the machine rejecting those with pieces of stone exceeding 3 mm. Potato crisps can move two tonnes per hour, with rejection of pieces having black discolouration or sugar burn. The 4000API is offered with various optical systems tailored to suit specific products. More on 01-980 4888.

FRENCH BATTERY maker, SAFT, has concluded a joint venture agreement with Japan Storage Battery (JSB), under which battery products will be made in Japan. With a capital of Y2bn, the new joint subsidiary will be called GS-SAFT and will concentrate on nickel-cadmium rechargeable units.

WORTH WATCHING

EDITED BY GEOFF CHARLISH

MACHINE VISION systems developed by Vidiscan, a UK subsidiary of the German press tool company Bruderer, can monitor high speed manufacturing processes.

The system uses a TV camera to examine each manufactured component and the TV picture frames are frozen and examined at high speed in a microprocessor.

Programmed to look for specific defects in the product, Vidiscan uses electronic techniques on the images so as to reduce the amount of data needed to make decisions. Frames are analysed in as little as 20 milliseconds (thousandths of a second).

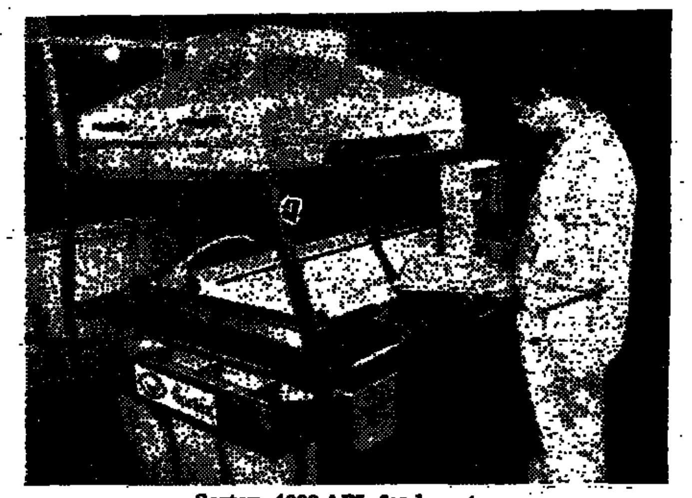
In a specific application, the Bruderer Vidipress, components made from coil-fed metal sheet can be inspected at up to 1,500 a minute. More from the UK company on 0582 576167.

MORE MICROCOMPUTERS were sold into large UK organisations in 1985 than in all the previous years combined, according to a report from Romtec, the market research company.

Of the total of 99,600 machines sold, more than half were from IBM. In large privately-owned companies, IBM placed 77 per cent. Romtec is in Maidenhead, UK, on 0628 74242.

NEW SECURITIES markets and technology will be discussed by Mr Richard Niehoff, president of the Cincinnati Stock Exchange, who has confirmed that he will be speaking at the Financial Times conference on the subject in London on April 7 and 8.

In co-operation with Mr A. R. Brown of Software Sciences (part of Thorn EMI of the UK), Mr Niehoff will discuss the Cincinnati trading system, the most advanced electronic stock exchange and the model for what many expect equities trading soon to become. More from FT Conferences on 01-621 1355.



Sortex 4000 API food sorter.

TELEVISION SETS that work on solar power have been developed by Sanyo in Japan and samples are already being shipped to China and South East Asian countries.

The solar panel measures 120 by 80 centimetres and keeps a lead acid battery charged up to supply the set with up to 50 watts. Some 2000 hours of sunlight annually will allow five hours' viewing a day.

RECORDED ANNOUNCEMENTS come straight out of semiconductor memory instead of the usual magnetic tape in a new system from Telecommunications Information Systems in the UK.

The announcements are digitised—turned into a series of on/off electrical pulses like computer data—and stored in semiconductor memory. One advantage is that playing quality remains the same.

If you found this newspaper in ten years time, you could still cut the coupon for this digital exchange.

However, before you think too far ahead, let's flick the pages back a little.

To ten years ago. Back then, the telephone was at the forefront of the office. Everyone was happy with it. It did its job.

Today though, it shares desk space with an equally important worker.

The Personal Computer.

But unlike its telephonic neighbour, exchanging information has never come easily to the PC. So it's only ever talked to itself.

That's why ITT designed a digital exchange (or PABX as it's sometimes called), that will speak PC language.

We call it the ITT 5200 BCS. With our PABX, personal computers talk happily away to each other, while it is coping efficiently with your present telecommunications needs.

And as for the telephone's future, the PABX sits there patiently, waiting for the new and forthcoming technology to catch up with it.

Meanwhile, a 5200 BCS means your staff work hand in hand with their word processors, facsimile machines, electronic mail, and computers and phones. They'll be working more efficiently, and much more productively.

The 5200 BCS becomes the hub of your office communications, sorting out the connection problems (inevitable with business equipment), all on its own.

Mind you it isn't alone when it comes to information management ideas from ITT.

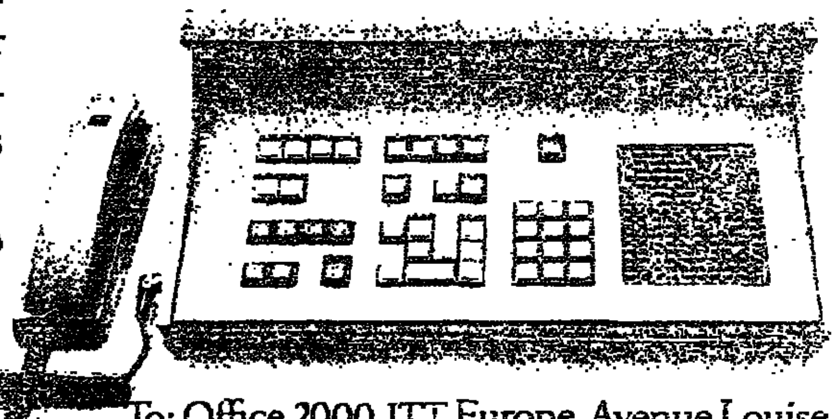
By no means. We have a whole range of hardware and software covering this area. It's called Office 2000.

Each product is the result of over one hundred years in telecommunications and information management worldwide.

They're the fruits of $1 billion a year investment into research and development. Proof enough of the commitment, and the resources to provide a service well into the 21st Century (we don't call it Office '2000' for nothing.)

Right now though, all you need to invest in is the price of a postage stamp, for our 5200 BCS information pack.

You could wait ten years, but someone else will have clipped your coupon by then.



To: Office 2000, ITT Europe, Avenue Louise 480, B-1050 Brussels, Belgium.

Name ______ FT7
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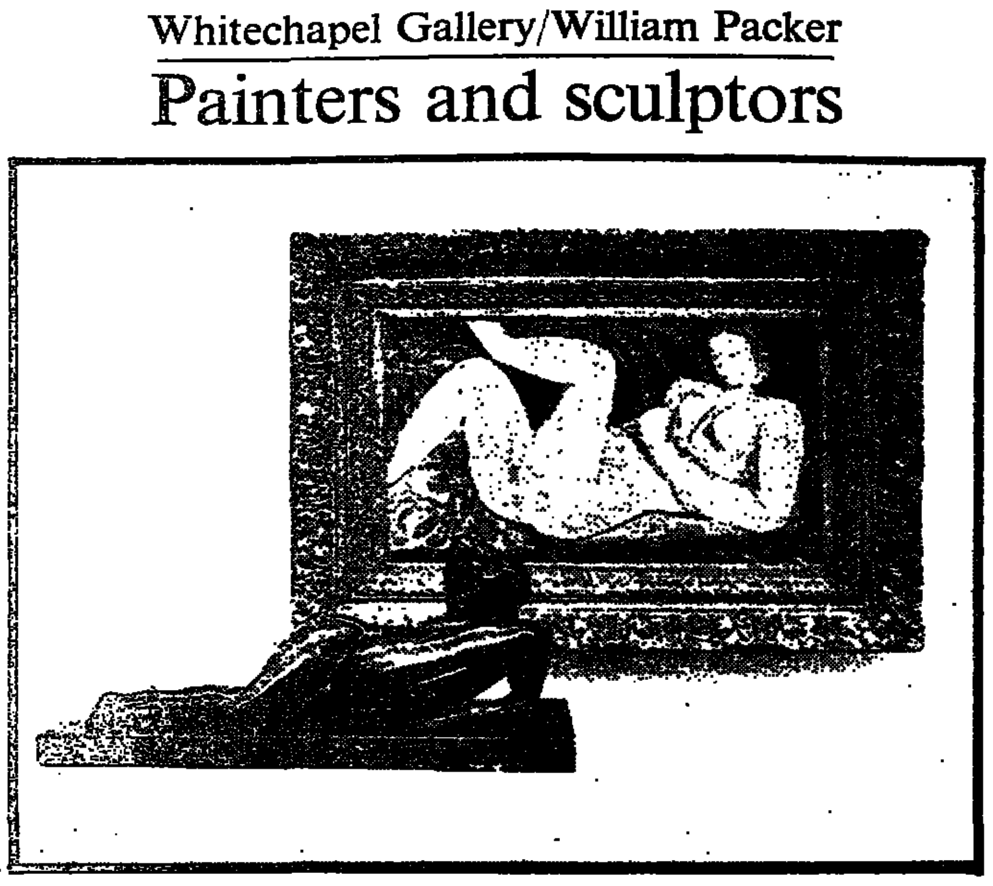
THE ARTS

Whitechapel Gallery/William Packer

Painters and sculptors



Matisse reclining nudes in paint and bronze

The Painter-Sculptor in the Twentieth Century is a huge subject. Rather like Topsy, it grows bigger the more one looks into it. It can bear an almost limitless variety of critical interpretation. Lynne Cooke has perhaps been right to observe the strictest self-discipline and restraint.

In Tandem, the exhibition she has put together for the Whitechapel (until May 25—supported by The Henry Moore and the Whitechapel Foundations), though it occupies all the new galleries, is hardly the richly various and indulgent feast of good things we might have expected to enjoy upon such a theme. Good things there certainly are but they have been chosen and presented to conform with what one night term the *nouvelle cuisine* school of curatorial practice: most beautifully set out, and with lots of space between. It is very well done as an exhibition it could hardly look better.

Miss Cooke has fixed upon three general periods and groups of work, early, middle and late. Wherever possible she has tried to set mutually relevant paintings and sculptures side by side. By this she makes a most interesting and—it seems to me—valid point. There is nothing odd in the idea that artists should wish to extend themselves by embracing disciplines other than their own. Quite apart from the fact that we too readily assume a habit of specialisation, we do well to remember that the painter or the sculptor is an artist first or he is nothing.

His responsibility is to his work; to get it right by the terms he sets himself. If to do so it must take other forms in other media, so be it. Lynne Cooke makes that general demonstration here with an easy elegance throughout: from Degas with his Dancers in the 1890s, *via* artists such as Kirchner *circa* 1910; Matisse and Picasso Miro and Giacometti in the 1950s; and Clemente, Baselitz, and Schnabel in the 1980s.

But her point touches the subject more deeply and with a nicer acuity. As we pass through the work of all these "painter-sculptors," we come to realise that we look in vain for the work of a "sculptor-painter." A distinction hitherto unconsidered, thus becomes critical.

Giacometti, of all those here, is the only one with any real claim to be principally a sculptor. Certainly his sculpture supplies the substantial portion of his *oeuvre*; but even that must give us pause when we consider its spatial and formal ambiguities and the curiously pictorial nature of its imagery, as though the artist was preoccupied not with the actuality of sculpture, but with the illusory reality of painting.

To begin at the beginning is for once the best way to see the show. Climb the lobby stairs to the upper gallery and the first small group of early works: the clutch of exquisite Dégas bronzes of a dancer teetering on one leg, inspecting her foot; the Matisse reclining nudes in paint and bronze; a single monumental Picasso head; and the two magically lively wooden figures, sophisticatedly expressionist and deeply primitive, by Kirchner.

On to Giacometti and Fontana, de Kooning and Baselitz, Dubuffet and Miro; and so downstairs to Ellsworth Kelly and the rest. End with Schnabel's massive Balzac as Herne the Hunter, and Clemente's weird swarm of clay figurines. Go round again.

Cosi fan Tutte/BBC 2

Andrew Clements

Of the three Mozart/da Ponte operas *Cosi* is the one most suited for televisual treatment. Its small cast and tightly confined action, intricate layers of plotting and deceit, seem to be tailor-made for the concentration that television can afford. The splendidly grandiose landscapes of, for instance, the *Don Giovanni* that Joseph Losey directed for the cinema would be quite wrong for this particular work, whose chamber dimensions and consistent intimacy are irreducible essentials to its magic. On television there is just the chance that the magic may be sustained and even in certain important respects intensified.

Jonathan Miller's production of *Cosi* for BBC 2, made in 1985 and screened last night, predictably had a great deal about it that was both thoughtful and intelligent. Nothing was downright silly — the casting was solid, the musical performances first-rate. The production used a free but very singable English translation by Ruth and Thomas Martin, and took judicious if not always conventional cuts to keep the action moving. The setting was authentic enough. With costumes based upon designs from the precise period of the first performances of the opera, and the use of a Neapolitan villa as set, it always looked well-ordered and beautiful: a cool, elegant *Cosi* placed precisely in its historical context.

In the theatre I am sure one would be applauding this staging for its grace and lucidity as well as its success in bringing together six such carefully-observed and detailed accounts of the principal roles. For television, though, one wanted more. There were moments when Miller seemed almost unwilling to admit that he had the flexibility of video recording available to him, as if the 18th century purity of his conception could not be sullied by any modernist trickery.

The three-quarter length shot became the standard; extreme close-ups were rare. Eye-catching camera angles were also used sparingly. Certainly too much of this kind of juggling with perspective and distance would have been distracting, and taken attention away from the finely studied performances, but something to catch the range of the opera—its shifting depths, real and contrived emotions, genuine moments of humour—would have been welcome. Instead it remained confined to a single expressive plane, an ornately decorated surface upon which the characters moved, almost as if programmed strictly according to 18th-century norms of behaviour.

Peter Robinson conducted a sprightly account of the score, with the London Sinfonietta getting in trim for its Opera Factory production next summer, taking the cast through some stylishly-sung arias and rather less engaging recitatif. Jean Rigby's Dorabella and Ashley Putnam's Fiordiligi looked absolutely a part with Miller's conception, and their characterisations — well-drawn and consistent though they were—kept within his strictly observed boundaries. Similarly, Ferrando (Anthony Rolfe Johnson) and Guglielmo (Thomas Hampson) were conceived as almost the complementary halves of a single unit and had fashioned themselves accordingly. More interesting were John Rawnsley's Don Alfonso —less of the conventional, cynical misogynist and more the 18th-century rational experimenter — and Rosemary Ashe's Despina, who was allowed to make better use of confidential asides to the camera than the others and also given a freer rein for her comedy. If altogether it was an enjoyable and thoroughly worthwhile production, the sense of an opportunity missed hung heavily over most of the proceedings.

St. Francois d'Assise/Festival Hall

Andrew Clements

After the première of Messiaen's "Eight Franciscan Scenes" at the Paris Opéra in 1983, most discussion centred not on the quality of the music or of the four-and-a-half-hour epic which seemed very much the mixture as before; but on whether it was really an opera at all. The consensus at the time was that it was nearer to costumed oratorio, and belonged at least as much in the concert hall as the theatre.

There were rumours at the time of a plan to bring the production to Covent Garden, but they appear to have come to nothing. Instead the first music from *St Francois d'Assise* to be heard in London were the three scenes that constituted Wednesday's Royal Philharmonic Society concert in the Festival Hall. As at the première the conductor was the miraculously accomplished Seiji Ozawa (conducting throughout from memory) and the orchestra the BBC Symphony. The part of St Francis was sung by Dietrich Fischer-Dieskau; Kenneth Riegel repeated the Leper from Paris, and the Angel was Maria Fausta Gallamini.

I must confess to not much relishing the prospect of the concert. The main memories of Paris are of the inordinate length of the evening and the utterly inadequate production, through which striking moments were thinly scattered. But in the concert hall, the ten-fold increase in impact and dramatic tension was hard to credit. Certainly the selection of scenes had preserved the most dramatic passages: the rhythmic abandon of the Leper's dance in Scene 3, the dark, aggressive textures of "The Stigmata" (Scene 7) and the overwhelmingly grand choral apotheosis in Scene 8, "Death and New Life."

What *was* surprising, though, was the quite carefully plotted dramatic curve of each scene and consistently high level of melodic invention. Only the final scene of the three makes much use of the birdsong which dominates other parts of the work, but the *Turangalila*-like riffs that punctuate Scene 3 and close-packed choral dissonances of Scene 7 seem perfectly judged. After the Palais Garnier, of course, the Festival Hall gave the sound much more bite and detail (though the chorus's words were consistently indistinguishable), but I suspect that whether the composer is happy with a piecemeal presentation or not, his opera is going to make much more headway in truncated form.

The vocal lines allotted to St Francis do not give the singer a great deal of scope for dramatic variety; they tend to move in smooth, syllabic curves, as if almost unaware of the events around them. Fischer-Dieskau, however, savoured the sense of every line and coloured them most sensitively. Reigel, with the one genuinely theatrical role in the work, bubbled with scarcely controlled energy; Gallamini, placed in the highest tier of boxes, bathed the score in unforced, pure tone. Philippe Rouillon was an eloquent Brother Léon.

The real hero, though, was Ozawa, obtaining the BBCSO's finest playing, and encouraging the BBC Singers and Symphony Chorus to feats of astonishing accuracy and tonal power. The composer was present, and received a standing ovation at the end; it was a genuine occasion.

Road/Theatre Upstairs

Martin Hoyle

A paradox: those promenade performances that engulf the wretched audience in folksy bonhomie leave me murderously misanthropic. The Royal Court's little upstairs auditorium now invites us to wander through mean streets, jostled by characters who leave us nervously craving a bath; and the result is stimulating, thrilling and moving.

The Lancashire-born author, Jim Cartwright, (currently on the dole) can switch styles from the sharp and funny immediacy of the old *Coronation Street* at its best to the high stylisation of an *Under Milk Wood* for the derelict, dotty and disinherited of our inner cities. His anger and humour are absolutely fresh. At times he allows his characters too much articulateness, as with young Joey (Neil Dudgeon) who goes to bed and starves himself to death, joined by his girlfriend ("Are we protesting?").

His tirades against business and religion, the surreal imagery of sickness ("I bring up a small pig ... it were my destiny") are slightly too pat; but the theatrical picture is amazingly potent, and as the dying Clare fantasises about the day when the last job on earth is lost and the hooter goes for the last time, one feels a dramatic flair overcoming accusations of self-parody.

Jim Cartwright's writing is almost too fluent, veering from intense monologues to near-revue sketches, as in the hilarious scene between Susan Brown's desperate post-closing time seductress and the dismayed, drunken young soldier, mute, melancholy and never opening his mouth except to vomit quietly into his chips. Marvellous, too, is the bitter speech of the disillusioned wife (Lesley Sharp) of an unemployed husband. "He fills the room like a wounded animal ... I see the waste but I can't forgive him. O, my man ... I hate him now and I didn't use to. I hate him now and I don't want to. Can we not have before again ... Can we not?" Before—or "ago"—is nostalgically remembered by Colin McCormack's older man, dreaming of National Service, courting and "Volare" in what actually rings second-hand, the product of the author's researches rather than his feeling.

Mad-eyed narrator in this Thatcherite version of *Our Town* is Edward Tudor-Pole who rushes among us, on one occasion wielding a supermarket trolley like a chariot, and from whom I would keep a good distance. Simon Curtis's production inspires a cracking cast to some tingling acting. The climax comes when two flash lads have picked up two girls. The mutual mockery, banter and chaff-turned-bitter reaches an extraordinary few moments when, deliberately, ecstatically drunk, the young men sway to Otis Redding's "Try a little tenderness." For several minutes the characters are silent as William Armstrong, his eyes closed, works himself into a near-mystic trance before launching into a screaming rhapsody of escapist cowboy fantasy, followed by sad confessions from his companions. "Big bust" cries Mossie Smith, uttering like a talismanic charm the phrase she knows will register with men. This sequence is simply one of the most unlikely, audacious and, in the event, riveting scenes to be found currently in the theatre.

For all its odd lapse into caricature, piling on the agony or whirling from one style to another, this play marks a marvellously exhilarating début for the author. It also marks the emergence of Mr Armstrong as an actor to be reckoned with, on the ferocious and intense lines of a Pryce or a McInnerny. A thrilling evening.

Bach's St Matthew/Festival Hall

David Murray

Fashions in Passions are changing, under pressure from musicology, and have not settled yet. Bach's *Passion of Our Lord according to St Matthew* is surely the most widely revered of devotional works on a grand scale, and for a century after Mendelssohn revived it grand musical forces — in the Victorian and Edwardian modes — seemed natural to it: a huge double chorus, with orchestra to match. Hundreds of thousands of people have been grateful to sing in it, and want to re-live it in annual solemnity. Musicological reformers must tread gently: to confound pious expectations is no light matter.

It seemed considerably too light on Friday, when Jane Glover conducted *St Matthew* before a devoted Festival Hall audience. I thought she failed to come to terms with the case for stylistic reform. On the one hand, she presided over a London Choral Society in great numbers (with a bright true boys' choir from Haberdasher's Aske's) and a reinforced English Chamber Orchestra (no "authentic instruments" but the solo viola da gamba, unless you count oboes d'amore). On the other, she aimed mostly at the lighter, dancing tempi, without ponderous *gravitas*, for which musicologists argue. But the argument proceeds from the premise that Bach wrote not only for a different kind of playing, but for far smaller forces: *that* is where the new, light-footed style makes sense.

If it can be translated to the time-honoured expanded scale, Miss Glover did not prove it. Though the opening chorus and certain of the arias had the proper gravity, her reading was generally up-tempo to the point of jauntiness (in some singularly inappropriate places). And where it was not jaunty, it was as often trundling and bland. The kind of bite, in rhythm and phrasing, that a small band can supply at brisk speeds was not to be heard. The finales of both halves of the work sounded tamely inconclusive and the chorus regularly swallowed the orchestra. The chorales, brisk to the point of brusqueness, were nevertheless presented as art-objects, with self-conscious diminuendos and pianissimos.

The Passion was diminished, not revitalised.

There were good moments of high theatre (notably the furious choral fugue near the end of the first half) which came oddly in this temperate, neutrally swift performance. The chorus was efficient, granted some shrillness in the first sopranos. The ECO was better than that, and William Bennett's flute and Jose Luis Garcia's violin supplied quite beautiful obbligati to two of Felicity Lott's arias—would that Miss Glover had inspired all of her musicians to be so fresh and flexible! Miss Lott herself sounded untypically pallid in other places; Paul Esswood's elegant counter-tenor combined sweetly with her in duet. The virile, stylish tenor was Laurence Dale, the bass David Wilson-Johnson, blustery at first but steadily better. At short notice Rodney Macann sang Christ with pungent fervour and timbre; Anthony Rolfe Johnson's Evangelist—despite a frog in the throat for the second half—was exemplary in commitment and diction.

Bartók Quartet/Wigmore Hall

David Murray

The Bartók Quartet, always welcome visitors, do not play only Bartók, and their concert on Saturday consisted of the less rigorously challenging first (or only) quartets of Beethoven, Debussy and Tchaikovsky. This sympathetic programme was varied enough to be satisfying, to display the considerable powers of the quartet, and also to highlight their appealing idiosyncrasies. They allow themselves, for example—I make no complaint—more generous portamentos than younger, more hygienic quartets, to soundly expressive purpose. (The modern refusal to "swoop" is an anti-vocal prejudice.) They are cultivated but forthright: no self-conscious airs, but no raw orchestral pretensions either—they do not saw or chop. They preserve a friendly objectivity, and attend to long-term musical shapes.

Their ensemble is not as homogeneous as it might be: their leader's intonation is a bit whimsical (there were two or three painful moments in unison passages with the second violin), and in *forte* their tuttis were sometimes lower-middle heavy even at the cost of the main tune. It hardly mattered, for everything they did had the marks of considered purpose—their collective voice commands respect. That it has the accents of Eastern Europe gives it a specific focus, but isn't any kind of constraint.

The beginning of their Beethoven, the D major quartet published as "No. 3" op. 18, was marvellously suave, and with the second subject they gave an object lesson in how to make chordal playing full and vital without explosiveness. Their Scherzo—unmistakably that, not a measured Minuet—was witty. In Debussy's quartet they probably exceeded the strict limits of licensed *rubato*, but the unfamiliar light they shed upon it was a happy tonic. The ever-familiar Andante cantabile of Chaikovsky's first quartet teetered brilliantly on the brink of Palm Court; the rest was warmly simple and lyrical, with a final coda of articulate dash.

Edinburgh Festival plans for 1986

The 1986 Edinburgh Festival, which runs from August 10-30, will open with its own production of Weber's opera *Oberon* in a newly refurbished Usher Hall. Seiji Ozawa will conduct the three performances of this new production, designed by Carl Toms. More opera will be provided by the Maly Company of Leningrad.

The theatre programme will include Ingmar Bergman's new production of Strindberg's *Miss Julie*, performed by the Royal Dramatic Theatre of Stockholm, and the Toho Company of Japan will return to Edinburgh with a production of Euripides' *Medea*.

Concerts will be played by the Moscow Virtuosi, the Toronto Symphony Orchestra conducted by Andrew Davis, Sir Neville Marriner and the Academy of St Martin-in-the-Fields, Simon Rattle with the City of Birmingham Symphony

The Merry Widow/Coliseum

Rodney Milnes

How good a piece is the *Widow*? Answers to this question must govern reactions to the ENO's revival last week, a refurbishment by Ian Judge of Colin Graham's production of some five years ago. If you think it just a piece of old Viennese tat, then this, very much a "West End Show" staging, may satisfy you; if, as I do, you hope it may be a musical comedy of manners with near-Beatrice-and-Benedick potential, then it is to be found wanting on every count.

The translation by Sheldon Harnick, used here for the first (and I piously hope last) time, was originally made for the New York City Opera, and is markedly inferior to the mixture of Christopher Hassall and others that we have grown accustomed to, not to mention Nigel Douglas's smart new version for New Sadler's Wells. The central characters are presented in two dimensions only, with opportunities for neither exposition nor development. Add the cynical insertion of a poor number from Lehár's *Giuditta* for the Widow in Act 3, one that has nothing to do with her character, and you will get the general flavour.

Not that the production is up to West End standards even on its own terms. Nick Chelton's lighting changes ceaselessly around and within numbers, as though it were trying to hide something, and compromising what continuity of thought there is in the work; Ian Judge, a fine director as we know from his *Faust*, can do nothing with the given text; the choreography is of shy-making awfulness; Herbert Prikopa, who knows about this sort of music and shapes it persuasively, makes no attempt to solve the problems of passages that were not written for performance in a large house.

The waste of a talented cast is especially depressing. The company has had bad luck recently with title-roles on first nights; Valerie Masterson was ill, and her place was taken by Penelope MacKay, an elegant artist who looked a treat in her new Fortuny frock in Act 1 and sang very well, but there is more to the Widow than her particular — and admittedly delightful — brand of zany charm.

Alan Opie, potentially the best Danilo since the unforgettable John Wakefield, turned in a gruff, charmless performance, playing the "Konigskinder" finale as though he were auditioning for Otello. Lesley Garrett sparkled in a vivacious but too generalised fashion as Valencienne, and Adrian Martin, perhaps wisely, restricted himself to singing beautifully as Camille—these characters are not well defined, at least not by Harnick.

A truly dreadful evening. If a serious company like the ENO is to go slumming, then it must do so a great deal better than this.

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Arts Guide

Mar 28-Apr 3

Music

LONDON

Royal Philharmonic Orchestra conducted by Sir Alexander Gibson with Michael Roll piano. Tschaikovsky, Dvorak and Rachmaninov. Royal Festival Hall (Tue). (928 3191)

City of London Sinfonia directed by Nigel Kennedy, violin, with Jack Brymer, clarinet. Bach, Mozart and Vivaldi. Barbican Hall (Tue)

Philharmonia Orchestra conducted by Riccardo Muti. Honegger and Mahler. Royal Festival Hall (Thur)

PARIS

Jazz-Bivouac: French and foreign jazzmen's encounter inspired by the oldest tradition as well as by the most daring contemporary experiments (Wed). Radio France (4524 1516)

ITALY

Rome: Aula Magna dell'Universita la Sapienza: Piazzalle Aldo Moro 1: Artis Quartet with flautist Mario Ancillotti. Mozart. (Tue) (361 0051)

NETHERLANDS

Amsterdam, Concertgebouw. The Concertgebouw Orchestra conducted by Riccardo Chailly, with Jard van Nes, mezzo. Bon, Rihm, Berio (Thur). (71 83 45)

SPAIN

Madrid, Spanish National Chorus conducted by Miguel Groba to music by and Petrassi. Teatro Real, Plaza Isabel II. (Tue). (248 38 75)

NEW YORK

Carnegie Hall: National Symphony. Mstislav Rostropovich conducting. Bella Davidovich piano. Rachmaninov, Shostakovich (Tue). (247 7459)

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Tucker, Haydn, Bruckner (Thur). Kennedy Center (254 3776)

Opera and Ballet

PARIS

Maurice Bejart's 20th century ballet ends with Le Concours danced to Hugues Lebars' music. Palais des Congres (42662075)

Sankai Juku, choreographed by Ushio Amagatsu, creates a shock with often disturbing and cruel images of the Buto dance. Théâtre de la Ville (42742277).

LONDON

Royal Opera, Covent Garden: An interestingly conceived Der Fliegende Holländer, variably sung and pungently conducted by Gerd Albrecht, has predictably divided opinions. The revival of Arabella is strongly cast, and Bernard Haitink's conducting adds further distinction. (240 1066).

NETHERLANDS

The Netherlands Opera with the Italian section of the Civil Wars by Philip Glass and Robert Wilson, directed by Robert Wilson. The Netherlands Philharmonic under Lucas Vis, and the Netherlands Chamber Choir conducted by Siebe Riedstra. Premiere Mon in Scheveningen, Circus Theatre (55 88 00), Wed in Utrecht, Schouwburg (31 02 41).

WEST GERMANY

Berlin, Deutsche Oper: Macbeth has fine interpretations by Piero Cappuccini in the title role and Olivia Stapp as Lady Macbeth. Parsifal brings together Ruth Hesse, Gerd Brenneis, Gerd Feldhoff and Martti Talvela. Otello stars Pilar Lorengar and Spas Wenkoff. Die Lustigen Weiber von Windsor rounds off the week. (34 381).

Stuttgart, Württembergisches Staatstheater: Martha, Loriot's first opera production was received with acclaim when it premiered. The cast includes Krisztina Laki and Helmut Berger-Tuna. Don Giovanni has Peter Schreier outstanding in the title role. (20321).

ITALY

Turin: Teatro Regio: London Festival Ballet in Prokofiev's Romeo and Juliet, with choreography by Frederick Ashton. In the cast: Peter Schaufuss, Elisabetta Tarabust, Raymond Smith and Alexander Grant. (548 000).

SPAIN

Madrid, Mussorgsky's Boris Godunov features Ruggiero Raimondi and Stefana Toczyska, Vladimir Atlantov, Martha Szirmay. Production of Grand Opera of Houston. Teatro de la Zarzuela, Jovellanos 4. (Wed and Fri). (429 82 16).

NEW YORK

Joffrey Ballet/ NY State Theater): The spring season includes two full-evening performances, Romeo and Juliet and The Taming of the Shrew, four one-act premieres and 14 repertory favorites including Offenbach in the Underworld, Forgotten Land, and Rodeo. Ends April 20. (870 5570)

WASHINGTON

American Ballet Theatre (Opera House): National tour includes from the company repertory Don Quixote, Romeo and Juliet, Giselle and The Nutcracker. Ends April 20. Kennedy Center (254 3770)

James Taylor/Hammersmith Odeon

Antony Thorncroft

James Taylor passed through London at the weekend looking remarkably relaxed for a man who has battled hard against drugs and mental collapse, and who carries the responsibility for unleashing on the world all those singer-poet-songwriters whose vapid verses and playschool philosophies made concert-going, such a hazardous experience in the early seventies.

Perhaps because he was the first to wear his emotions on the sleeve of his kaftan, Taylor's own songs about lost sweethearts and life on the road carried a heartfelt relevance, but he did not allow his audience to drown in nostalgia at the Odeon. This was a very up-beat performance, with every old hit like "Fire and rain," matched with rock standards like "Knock on wood," or a trailer for the new album, pointedly entitled "That's why I'm here."

Taylor is an extremely engaging performer. Lithe of body if less of hair than two decades ago, he was dressed in workmanlike white shirt and grey flannels and his charm and professionalism shows best in the fact that his excellent band has stuck by him for years—seventeen in the case of the hippie bassman whose face disappeared beneath hair the day he signed up.

It was a relaxed reunion and a long one—Taylor was on stage around two and a half hours. Instead of an interval we got a shaggy pig story, a quite credible tale of his pet porker who often travelled with the band. Perhaps it was too long a set—I felt drained at times—but Taylor's obvious pleasure and the frequent highlights, especially versions of "Up on the roof" and "Mexico," constantly pepped up the spirits. There was "You've got a friend" among the encores, and if this is what the late sixties and love and peace and rock 'n' roll was all about, it does not, in retrospect, seem to have been such a bad idea after all.

★

At least it was a soothing antidote to Big Country at the Academy Brixton the previous night. There is nothing wrong with the music, contemporary trad rock put over with the panache that Scottish bands often feel for this robust raw sound, but the crowd and the crush acted as a barrier. If a James Taylor audience is too reverential a Big Country audience feels that it is the main source of attention while the performances of the band, which was routine at times, can be taken for granted.

Segovia celebrates London anniversary

Guitarist Andres Segovia will celebrate the 60th anniversary of his first London recital with a concert at the Wigmore Hall on April 26. During the evening Segovia will be presented with the Royal Philharmonic Society Gold Medal.

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Tuesday April 1 1986

Gloomy omen from Moscow

IT MAY be premature to write off Mr Mikhail Gorbachev's demand for an immediate summit meeting with President Ronald Reagan to negotiate a comprehensive ban on the testing of nuclear weapons as empty propaganda. But it sounds like a deeply depressing augury for the future of arms control by the two superpowers and may well turn out to be the first step towards a Soviet pretext for calling off the Washington summit meeting which had been agreed in Geneva last November.

The idea of a comprehensive test ban has long had an honourable place in the canon of arms control objectives. It is inscribed as a target, among others, as part of the Non-Proliferation Treaty: most countries in the world have committed themselves to the renunciation of nuclear weapons, but the price they have exacted has been a commitment by the nuclear-weapon signatories to pursue serious arms control negotiations and in particular to work for a comprehensive test ban. In the late 1970s, negotiations did take place between the Soviet Union, the US and the UK, and apparently made real progress. But when President Reagan came to power in 1980, he declined to resume the negotiations.

Constraints

Since the Soviet Union has been observing a test moratorium since last summer, Mr Gorbachev's demand for immediate negotiations on a test ban agreement looks doubly virtuous. Yet in fact it is absolutely cost-free to Moscow, because Mr Gorbachev knows there is no danger that his demand will be taken up either by the US or by Britain. The British Government claims that existing verification methods are insufficiently precise to guarantee compliance with a total test ban on explosions below a certain level; the US Administration, which used to rest its case on verification arguments, now says openly that, so long as nuclear weapons exist, some testing will remain necessary.

Opinions may differ on the urgency of negotiations on a comprehensive test ban. Serious constraints on testing, even if they fell short of a total ban, would help to slow down the development of even more refined generations of nuclear weapons; an agreement on testing, like any arms control agreement, would help to reinforce the Non-Proliferation Treaty, and should signal a step towards an improvement in superpower relations. But for the Soviet Union to make heavily - publicised demands which it knows in advance will be rejected, smacks disagreeably of cheap propaganda.

If Mr Gorbachev were seriously interested in constraints on nuclear testing, his first step would be to explore ways of persuading the US to ratify the Threshold Test Ban Treaty of the 1970s, which limits underground tests below 150 kilotons. This has not been ratified by the US Senate, because the US distrusts the effectiveness of existing verification methods. President Reagan has proposed dealing with this problem by having scientists from the two sides make on-site calibration of the testing sites. Even though Mr Gorbachev has professed to be open-minded about the strengthening of verification methods as a general tool of arms control, including on-site inspection, he has flatly rejected President Reagan's proposal. By his insistence on immediate negotiations on a comprehensive test ban, he is transparently making the best the enemy of the good. He may believe that it will bring dividends in simple propaganda terms, but his move can only raise doubts whether there is substance in any of his multifarious arms control proposals.

The first, but least depressing doubt, is whether he is merely setting up a pretext for the resumption of nuclear testing in the Soviet Union.

The more serious question, which is bound to be raised by Mr Gorbachev's latest propaganda offensive, is whether the Soviet Union is looking for a pretext to back away from any serious arms control negotiations. In Geneva, both sides have made far-reaching proposals for deep reductions in strategic nuclear weapons, and for the reduction or even elimination of intermediate-range missiles in Europe. If Mr Gorbachev is serious about these negotiations, one would expect him to seek progress where both sides are making analogous proposals, at least in declaratory terms; yet in practice, the Russians are stonewalling in Geneva as rigidly as ever. For Mr Gorbachev now to transfer his propaganda efforts to an issue where there is no common ground, even in principle, can only be a gloomy omen.

Arbitrary move by Mr Lawson

WHEN THE Chancellor of the Exchequer arbitrarily juggles excise duties on drinks, tobacco and petrol, he may perhaps be working within the accepted framework of budgetary tradition. But when London's reputation as an international financial market place is at stake, it is much less acceptable for him similarly to reshape capital market taxation without consultation or even—it would seem—due thought for the consequences.

Mr Nigel Lawson's decision to impose a 5 per cent tax on the conversion of British company stocks into depositary receipts (American depositary receipts, or ADRs, being the only important variety) has aroused an angry reaction from the London Stock Exchange as well as, more predictably, from the American securities houses which have been developing active markets in these instruments and from the British companies which have seen them as a highly effective means of attracting transatlantic investment interest.

It is also worth mentioning the curious swipe at company loan stocks, which have had stamp duty reimposed on them after being exempted only a few years ago. The domestic primary market in debentures and loan stocks is in any case dormant, but the move seems likely to choke off any resurgence, or at any rate divert activity into the Eurobond market, which remains free of stamp duty. Certainly the revenue-raising potential of this move is trivial. Were the implications properly thought through by the Inland Revenue?

Abortive

The origin of these rather clumsy changes lies in a decision made some months ahead of the Budget to reduce stamp duty on securities transactions from 1 to ½ per cent—a measure urgently requested, of course, by the City of London, for reasons of international competitiveness. But at the same time it was resolved to claw back the lost revenue from roughly the same sources.

Attempts to devise other financial taxes—for example, on banking transactions—appear to have been abortive. The Treasury therefore fell back on widening the stamp duty net, although it might have been more logical to have viewed any shortfall in the context of the growth in corporation tax and income taxes now being generated by the expansion of the City's international role.

At this point wide consultations around the City would have been advisable, but were considered to be ruled out by the need for Budget secrecy. Rightly or wrongly, pre-emptive manoeuvres — such as the early creation and stockpiling of ADRs — were feared. However, there were discussions on matters of principle with the Bank of England.

The Bank is unlikely to have favoured the reimposition of stamp duty on corporate bonds, a market which it has been trying to nurse back to life for years. As for ADRs, the Bank appears to have accepted that there would be some logic in imposing a charge, if only to protect the revenue generated from trading in the domestic market. But it seems to have been envisaging a charge of, say, 2 per cent rather than 5 per cent.

How the 5 per cent rate came to be selected has not been explained, except as a very rough-and-ready measure of the stamp duty that cannot be captured on subsequent ADR trade.

Now the corporate treasurers of some of Britain's biggest companies are lobbying the Chancellor in order to have the ADR tax withdrawn. At the very least, there is a strong case for the rate to be reduced sharply.

One broader lesson of the affair is the need for much wider consultation before taxes with uncertain and highly technical side-effects are imposed.

The fact is that internationalisation of markets inevitably imposes constraints on domestic taxation policy. In this sense, even the stamp duty rate of ½ per cent remaining after October 27 could threaten London's future development as a global centre for trading securities. If the Government is serious about encouraging London to try to compete with New York and Tokyo, there will need to be a more enthusiastic fiscal approach by the Treasury than has been evident so far.

THE BATTERY INDUSTRY

Fallout from a hard sell

By Christopher Parkes

UNION CARBIDE'S decision to auction off its consumer products business—precipitated by its tribulations over the Bhopal disaster—heralds the biggest upheaval in the dry battery business since Dart & Kraft's Duracell brand took the market by storm in the late 1970s.

On offer is a 25 per cent slice of a $4bn global market. At present no other manufacturer can match this strength in depth with only Duracell anywhere near. Last year the brand was worth $800m in worldwide sales.

For an estimated stake of between $1bn and $2bn, contenders can buy the Union Carbide range of batteries and a place in the ring with the most aggressive battler the business has known. Dart & Kraft itself and Ray-O-Vac, Union Carbide's leading competitors in the US, are probably ruled out of the bidding by anti-trust considerations. Britain's Hanson Trust group has declared an interest and Varta of West Germany and Matsushita of Japan are believed to be contemplating an offer.

All have already felt the power of Dart and Kraft, the processed cheese-to-Tupperware conglomerate which still works to a strategy it established in the US during the 1970s. Ignoring the old technology zinc carbon dry cell, it armed itself with a range of long-life alkaline manganese batteries and attacked the US market with a vengeance.

The dry battery, formerly a workaday commodity, was promoted with the flair, vigour and advertising budgets usually reserved for more glamorous consumer products. Distinctively coloured in copper and black, the Duracell product was sold on the strength of its long life.

Sceptics who believed it had no mass market future because of its much higher price—at the time alkaline cells were three times as costly as conventional batteries—were quickly proved wrong.

"Duracell sneaked in on us and we had to play hard to catch up," says one Union Carbide official. By the time the company had geared up to mass produce its own alkalines, Duracell was firmly in charge. In less than 10 years long-life batteries have come to account for some 50-60 per cent of unit sales in the US and over 70 per cent of the market by value.

Duracell next applied the same tactics in Britain and Europe, where it began marketing in earnest in 1979. At the time, UK alkaline battery sales were worth about £5m. This year turnover could exceed £50m in an overall market worth £185m. Duracell is recognised leader in the sector, with an 80 per cent share.

Just as Union Carbide was taken by surprise in the US, Ever Ready was caught flat-footed in Britain. At the time it was floundering in the wake of its own blunder in attempting to change the brand name to Berec to avoid confusion with UC's Eveready label. Dart and Kraft found the door open even wider when Hanson Trust took the company over in 1981 and reverted to the British Ever Ready name.

The new management was not convinced by the threat from the alkaline, and plugged steadily on with its vast range of zinc carbon cells. It filled its marginal requirements for long-life batteries by buying in from its arch enemy, Duracell.

Hanson began stripping down Ever Ready, withdrawing back into the UK. Subsidiaries in Hong Kong and Nigeria were disposed of and in an extraordinary move in 1982 Hanson sold Ever Ready's West German and Italian factories to Dart and Kraft for £37m.

All the while Duracell was grinding away in Ever Ready's backyard, taking a growing share of the market. The Hanson subsidiary did not fight back until late 1983, when it launched its Gold Seal brand with a budget to match Duracell's.

The promotional battle reached new peaks last year when Ever Ready and Duracell between them spent more than £6m on advertising. By comparison, Varta of West Germany spent almost £1m over the same period, while six years earlier total promotional spending by *all* companies in the sector was about £1m.

For Hanson, which has now consolidated its position in the UK, the choice is plain. If it tries and fails to buy the UC division or if it turns its back on the auction, it seems fated to remain locked inside the small UK market fighting a lone battle against Duracell.

Rebuilding international market share from scratch in the face of competition from Duracell and the new owners of the UC operation would be a costly and difficult task. The current philosophy in most mature consumer industries is that the most efficient and possibly the only effective way to increase market share is to buy it.

Recent examples include Unilever purchases in the US margarine business, Black & Decker's takeover of General Electric's small appliances business and Electrolux's purchase of White Consolidated Industries, a giant in the US domestic appliances market.

One of the principal attractions of the UC business is that despite its trials with Duracell, it has retained a considerable interest in the conventional zinc carbon market. This has assured it of a strong position in the developing world where incomes do not allow for the relative luxury of long-life products. The zinc carbon cell still accounts for 80 per cent of world unit sales.

Dart & Kraft, on the other hand, concentrates almost all its efforts on selling alkalines in industrialised countries where there are perceptible limits to growth.

While its recent assaults have assured it of a solid position in Europe and the US, the other established manufacturers building business in the Third World are unlikely to be caught napping again should Duracell try to move in with an aggressive strategy.

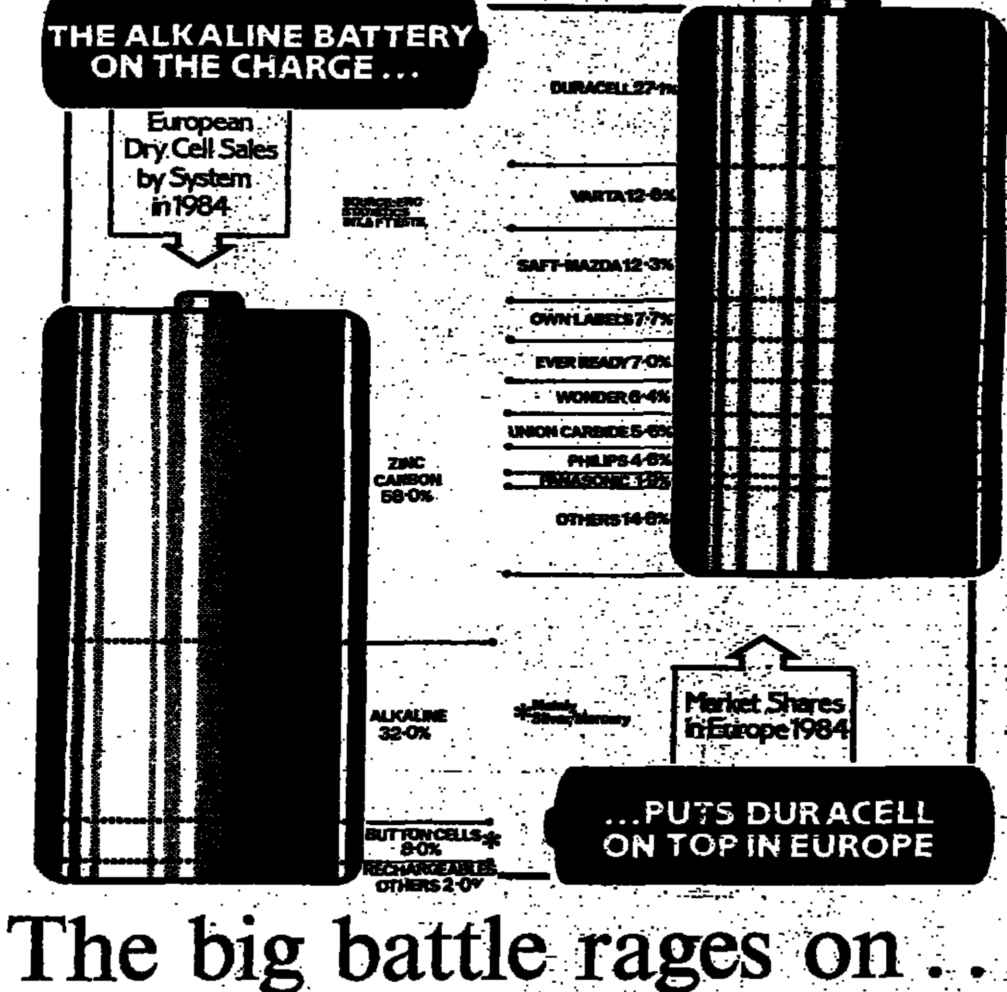
Union Carbide and the other world-scale manufacturers also appear to have a technological lead over Dart & Kraft. While the latter continues to capitalise on its alkalines, UC, Varta and Matsushita are pressing ahead with new generation cells, introducing nickel cadmium rechargeables and extending sales of lithium batteries from the specialist medical market into the consumer sector.

Union Carbide's strength in zinc carbon and its technological advances give the division a broad appeal among companies which at present are not involved in the battery business. The key factor is that the dry cell is a rare example of a truly global product.

Every country uses batteries in an increasing number of applications. Sizes and types are the same the world over; there are no cultural, linguistic or economic obstacles to the development of markets and the product is relatively simple to manufacture from standardised components.

Dart & Kraft, which recognised these characteristics in the humble plastic sandwich box, and developed Tupperware into an international phenomenon, did the same with the plain old battery. But it does not have a monopoly on these skills.

At the last count Union Carbide had noted about 50 window shoppers. Not least among them was Procter & Gamble, which has a foothold in almost every household product market in the world . . . except batteries.



The big battle rages on . . .

BRITISH Ever Ready's drive to catch up with Duracell has probably won it 15 per cent of the UK alkaline market, although some independent studies put the figure as low as 7 per cent. Duracell is still dominant with 70 to 80 per cent. At the same time, Ever Ready has held on to a large chunk of the conventional zinc carbon market leaving Vidor of the UK, Panasonic and Varta well in the rear.

Accurate figures are difficult to come by. As one student of the industry said of the two leading players recently: "Both companies are intent on not providing the unvarnished truth."

Tempers have flared and writs have flown in the past two years as the main combatants have challenged one another's market share and battery life claims.

One of the secrets underpinning the alkaline cell's advance lies in the way consumers have been persuaded that it is best for all purposes in all circumstances.

The scientific consensus is that alkalines generally show better performance and value for money in high-drain, continuous use applications—in a "ghetto-blaster" cassette player/radio for example. Zinc carbon batteries are effective in torches and other intermittent uses. However, this issue is now so forged in the consumer's mind, and Ever Ready is now so committed in both major market sectors, that further abstruse marketing arguments on the subject are likely to prove counter-productive.

For Mr Roy Doughty, Duracell's UK marketing director, the issue is simply a matter of the time it will take for alkaline cells to capture the lion's share of the market in terms of both volume and value. "In theory we still have about 70 per cent of the market to go for," he says.

Progress so far has been brisk. According to independent research in the UK, alkaline batteries last year accounted for at least 22 per cent of the market by volume—a three-point advance over 1984—compared with 2 per cent in 1978.

Zinc carbon's share has fallen from 96 to 74 per cent. The rest of the market is split between button cells for watches, hearing aids and the like, and a slowly developing trade in nickel cadmium rechargeables, where Ever Ready has a strong position.

Just as Duracell's impressive debut eventually woke up Ever Ready to the potential of the alkaline market, so the battle between the manufacturers has helped to alert the retail trade to the product's potential.

Supermarket chains have captured almost 30 per cent of all sales, mainly at the expense of radio and electrical shops and stores like Woolworths. Hardware and DIY outlets have doubled their share of sales in the past six years to 17 per cent. Chemists, led by Boots, have 16 per cent compared with 9 per cent in 1978.

This changing pattern has provided some advantages for Ever Ready. Big retailers like its distribution network which depends on the manufacturer's van drivers delivering direct to shops and filling the racks.

Duracell uses wholesalers. "It has to buy its way in with discounts and free batteries," say Mr Peter Attwood, of the Market Assessment research company.

Elsewhere in Western Europe, where the total market is worth some £1bn a year, indigenous manufacturers are more numerous, so the battle lines are less clear-cut. Among the "outsiders" Duracell runs three factories in Belgium, Italy and West Germany. Union Carbide has plants in Switzerland and Greece, and Panasonic covers Europe from a 50/50 joint manufacturing operation in Belgium where Philips management applies Matsushita technology.

Mr Peter Schatz, Duracell's European marketing chief, claims that alkaline batteries are already well on the way to supremacy in West Germany and France.

The rising power of the retail multiples has been accompanied by a growth of own label brands—these sell at a lower price and on lower margins than the branded product. Sainsbury's own label zinc batteries and the Boots brand of alkaline cells now compete directly with branded products. Dixons, Tandy, Fine Fare and emerging chemists chains like Super Drug also sell under their own label, says Mr Attwood.

Varta has about 30 per cent of the alkaline market share in Germany, matching Duracell. Philips, the Dutch multinational, and Union Carbide are also prominent. In France, Duracell has to contend with the Mazda brand, made by Saft, which is tied in with the popular Wonder label, Union Carbide, Varta and Philips. Hellesens, a Danish company is holding its own as market leader in Scandinavia. In Italy Duracell is locked head-to-head with Mazda.

Men and Matters

Taxing prospect for Hill Samuel

He who understands Chinese tax procedures will someday rule the world.

With such a thought no doubt uppermost in his mind, Brian Quick, managing director of merchant bankers Hill Samuel, has been to do business with the Shenzhen Special Economic Zone Development company, in Guangdong Province, near Hong Kong.

The company — whose acronym, SSEZDC, sounds more like a Yugoslav seaside resort — is to guide Hill Samuel through the maze of China's Inland Revenue service, emphasising its legal and regulatory aspects.

It will also help with investment and trade, and introduce the bank to trade organisations throughout the People's Republic.

In return, Hill Samuel will provide SSEZDC with introductions to important overseas companies, and give general advice and support through its project advisory group. Joint ventures are forecast.

An agreement has been signed, and Quick is now back in London savouring his triumph.

The potential — as in all matters concerning China — is enormous. Not all Chinese potential is realised, however, as some would-be exporters have discovered to their cost. Hill Samuel is pleased that SSEZDC also has an eye to the present.

"This is not just an empty agreement," says Quick. "We are going to sit down with the Chinese every six months to review progress, and we each know what we want."

Quick may be thought a little young — he is a mere 52 — to be conducting negotiations with the age-conscious Chinese. But he is managing director. And as such, his presence at the signing was taken by the Chinese as an indicator of Hill Samuel's serious intent.

Quick has several more Chinese aces up his sleeve, but refuses to give details at present. "The Chinese hate us to be presumptuous," he says.

"Probably a member of the Takeover Panel regulating an advertising copywriter"

Two desks

The appointment of John Fairclough, aged 55, from IBM to be the new chief scientific adviser in the Cabinet Office will be particularly welcomed by the man he is following—Sir Robin Nicholson.

For the past three months Nicholson has had to lead a double life. He has been administering his old office in Whitehall until a successor could be found. And he has been running the electro-optics division of the glass group Pilkington Brothers from his new chief executive desk in Mayfair.

Nicholson went to the Cabinet Office from the Canadian group International Nickel. Fairclough has been seconded from IBM, initially for two years.

The two men represent commercial science rather than the academic research community. Apparently Mrs Thatcher, a former industrial chemist herself, had a hand in both appointments.

Fairclough is a Yorkshire-born electrical engineer who joined IBM 30 years ago and became its director of development in 1964. He has been in charge of IBM's research, development, and manufacturing in Britain.

He tells me he is both "flattered and excited" by the challenge the government has offered. He has already learned something of what is involved working in the political hot-house of Whitehall through his work for the government inquiry into software engineering in recent months.

He is a founder member of the Engineering Council where colleagues know him as a "very lively character and very forward-looking." It is also said that he can be sharply critical of the traditionalists in engineering education.

Banking politics

A newcomer to the board of Dresdner Bank, West Germany's second largest banking group, is Dr Hans-Guenther Adenauer, whose formidable great-uncle, Dr Konrad Adenauer, was the country's first post-war Chancellor.

Dresden's Dr Adenauer, aged 51, originally studied law in Freiburg, Lausanne, Oxford and Cologne. After practising briefly as a lawyer, he entered the banking world in 1962 joining the private bank of C. G. Trinkaus (now part of Trinkaus and Burkhard, which is 70 per cent owned by Midland Bank of the UK).

In 1968 he switched to Dresdner, where he has been joint head of the big Frankfurt branch. He has been responsible there for corporate and foreign business.

His great-uncle, who was Chancellor in Bonn from 1949 to 1963, had a reputation as a wily political boss who, for a long while, dominated his cabinet.

Banking politics is a different ball game. But the "old man" — as he was known — might have had a few pungent words of advice for his great-nephew.

At Dresdner these days there is no doubt that Dr Wolfgang Roeller calls the shots. Already respected as a capital markets expert, he has acquired much prestige and an expansive manner since becoming chief executive more than a year ago.

Along with Dr Adenauer, Dresdner is promoting Dr Bernd Voss, aged 46, to the board. For the past five years he has been a partner in Bankhaus Reuschel, the Munich-based private bank linked with Dresdner.

Minnie deposit

Banks are showing a growing eagerness to resort to gimmicks to attract new accounts.

Tokyo banks may be said to be ahead of the pack in this respect.

A deposit of 400,000 yen at the Fuji bank recently netted the depositor several boxes of tissues and some cling-film wrap.

Mitsubishi bank, one of Japan's largest, has a particularly imaginative line in attractions. It issues depositors with passbooks decorated with Walt Disney characters. When, recently, a depositor said she did not really fancy Donald Duck on her passbook the bank clerk was crestfallen.

He offered her Minnie Mouse instead.

Ouch . . .

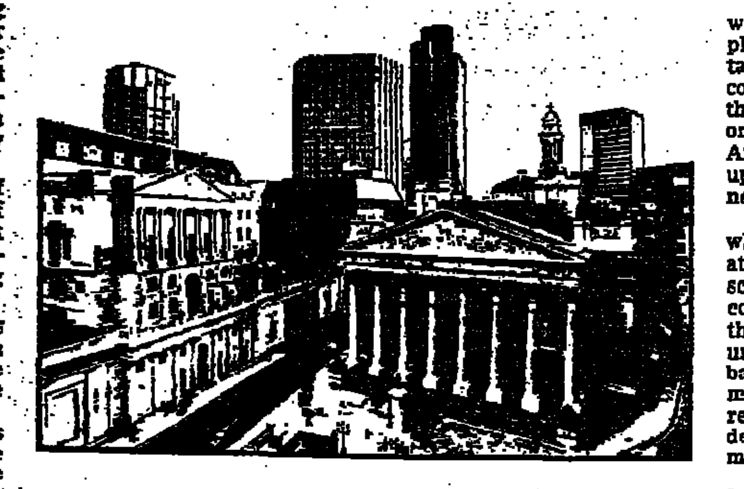
This column is no slouch when it comes to printing excruciating tailpieces. But I fear that this one will be the most painful yet.

A long-established maker of school punishment canes in Bognor Regis, Sussex, is being advertised for sale. Apparently it does much business by mail order with the present-day Wackford Squeers of our educational system.

The agents claim that the "business has tremendous goodwill."

I suppose that depends whether you are site-testing the product—or bending over.

Observer



UK fund managers

An anxious wait for Big Bang

By Barry Riley

"I'm the first victim of Big Bang," says a fund manager who has just been fired. The pension scheme which employed him has just wound up its in-house investment team and in future will entrust the money to "outside" managers.

The individual concerned of course, is unlikely to be out of a job for long given the current scramble for proven fund managers at sharply escalating salaries.

But his experience illustrates one of the uncertainties which have arisen as a result of the structural changes taking place in the UK securities markets.

Fund managers of all kinds are now attempting to assess the impact that Big Bang will have on them and on the funds they look after.

In theory they should gain benefits from lower commissions and from greater liquidity in the market place. But they may also have to make substantial adjustments in their own methods of operation if they are to reap the maximum savings and take on, as one leading manager puts it, "new and heavier responsibilities."

Not everyone therefore shares the enthusiasm of Mr Ken West, head of research at Prudential Portfolio Managers, the fund management offshoot of the giant insurance group, who says that "the changes are welcome, and they *can't come quickly enough.*"

The biggest challenge lies in the ending of fixed commissions, which is a key part of "Big Bang." For up to now fund managers have been able to rely on their brokers for a number of services, notably much or all of their investment research, paid for out of commissions. Moreover payments for other services have often also been bundled up with the commissions stream—performance measurement and the Datastream information system being two common cases in point.

In effect, brokers have competed among themselves to return some of this "value" to clients. Although not allowed to compete on commission levels, they have been free—within limits laid down by the Stock Exchange Council—to provide a variety of add-on benefits.

From next October 27, the date of Big Bang, the scales of commissions on gilt-edged, UK equities, and other domestic securities, will be scrapped. Stock Exchange firms will be free to compete on price.

Logically, fund managers will get the finest prices by dealing directly with the market making arms of the new integrated securities firms. But if they do this they will have to set up their own dealing and research departments while other services will have to be "unbundled" too. Would it be worthwhile, especially when the salaries of skilled practitioners *are going* through the roof?

Already the British Rail pension fund trustees have taken the drastic step of disbanding the existing team of in-house managers, and one or two private sector schemes have moved in the same direction.

With British Rail alone handing over some £3bn of assets under management to a series of external managers—who will operate under strict guidelines laid down by the trustees—Big Bang is triggering off perhaps the single biggest offer of new fund management business ever seen in Britain.

Mr Norman Ferguson, who runs the £1bn-plus Imperial Group pension fund, also managed in-house, hopes to absorb the pressures which have broken up the British Rail fund, but admits that pay levels are a big problem. "If in an industrial company you've got to try to mix a high-flying investment manager and somebody like a personnel manager it can be very difficult indeed."

He thinks that a provincial base—the Imps fund is run from Bristol—is a useful form of insulation. "It can keep down the costs. You don't readily move from the provinces to London even if you're offered a very fat salary."

Mr Ferguson accepts that he will have to build in a dealing skill, where previously that side of things has been taken for granted. But he adds: "Many funds, including my own, are already dealing in the United States on the new basis already, so it isn't that unfamiliar."

At the Pru, widely regarded as one of the most aggressive fund management houses, Mr West says: "We would be very surprised to see ourselves dealing in the gilt-edged market on an agency basis at all." He is not so sure about equities, where separate commissions may remain, albeit at a lower level. "We would love to see unbundling, but I think it's unlikely to happen."

In fact many fund managers hope that many of their long-established connections with stockbrokers will survive. Most are used to receiving regular advice and guidance, quite apart from formal research and other services.

In a more cut-throat environment they would have to stand much more on their own feet, *setting* up their own in-house services at considerable expense—which only the biggest investment management firms can realistically consider.

London has so far failed to spawn the hundred of tiny investment management firms which are characteristic of the US. Big Bang is not expected of itself to generate a major proliferation of new firms, because risk aversion both among individual managers and the pen*sion fund and other trustees* who might hire them will not be affected.

The independent investment management companies, meanwhile, are now making a major play in their marketing presentations on their freedom from conflicts of interest of the type that will proliferate in bigger organisations after Big Bang. And some of them are picking up large volumes of new business.

The big merchant banks, which have traditionally dominated the fund management scene in the UK, are therefore coming under pressure. Many of their pension fund clients are uneasy about *the entry of the* banks into securities market-making, and a lot of corporate restructuring is going on to demonstrate that investment management is run separately.

If independence is a virtue, however, no amount of redrawing of organisation charts is likely to make a bank-owned fund management business more attractive to a client than one with genuinely independent ownership.

The merchant banks are also under pressure from threatened disclosures to clients. Draft rules published by the Securities and Investments Board (which will have to be at least matched by the rule-book of the specialist investment managers' regulatory organisation Imro) insist on full disclosure of all income from portfolio management.

But published charges at present *account for only a part,* perhaps in some cases less than half, of the total income derived from managing funds. Mostly this is because the big banks are already well organised through central dealing desks, and by trading for several client funds at once they can cream off the benefits of large-scale transactions.

A £100,000 transaction in equities will be charged a commission of 0.5 per cent according to the *official* Stock Exchange scale, but a £2m bargain will be charged at 0.125 per cent. If enough small bargains can be bundled together—and under "continuation" rules this process can be stretched out across three months—the fund manager can pocket the difference.

Not surprisingly, the merchant banks are concerned about the effect that abolition of the official commissions scale will have on their income. "Many management houses are concerned at how they are going to get remunerated after Big Bang," says Mr Alan Cumming, pension fund director at Hambros Bank.

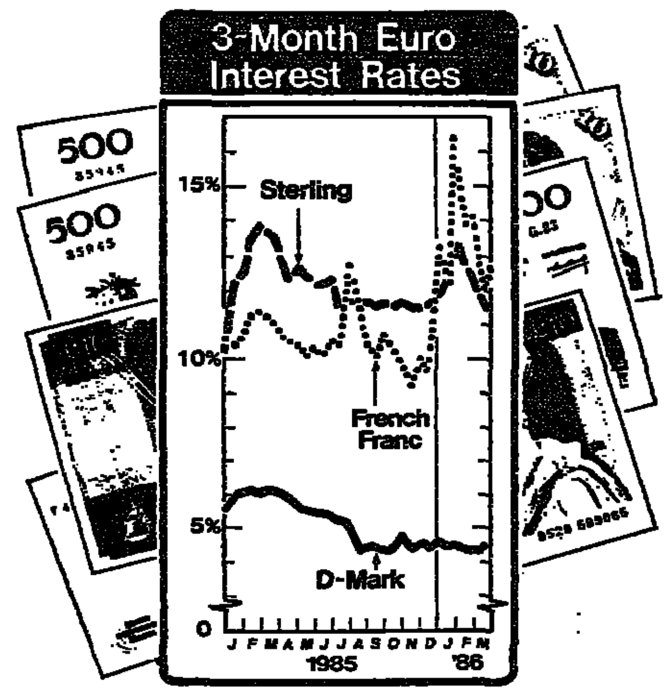
Fund managers certainly stand to gain from the upward pressure on salaries—especially those highly sought after specialists in areas like Japanese equities. But generally they are *less mobile* than their opposite numbers in the broking and market making firms.

In the months ahead, Big Bang will produce more victims.

Economic Viewpoint

Fallacies on EMS entry

By Samuel Brittan



NEVER take "No" from a Prime Minister. But before assessing the arguments which put Mrs Thatcher off membership of the European Monetary System (EMS), it is worth restating in a nutshell the case in favour.

There are two options for a government of a middle-sized country wanting to control, reduce, or eliminate inflation. The first is to state a purely domestic monetary objective. The second is for it to peg its exchange rate to a country or group with a good record of price stability and favourable expectations of that record continuing. The appropriate choice depends on circumstances.

The UK has chosen the first domestic monetary route. France has chosen the second one in the form of a link with the D-Mark bloc — which is what the EMS really is.

Up to 1984 France usually had a higher inflation rate than Britain. But in the past year the French inflation rate has dropped to 4 per cent while the British remains at over 5 per cent. The Organisation for Economic Co-operation and Development expects a differential of 1 per cent or more in favour of France to remain in 1986 and right up to 1987 when its forecast period ends.

In the early 1980s, there were some large EMS realignments. In the last two years, however, the EMS system has been operated as intended, as a quasi fixed-exchange rate one, with no changes in parities, except against the Italian lira, which has always been exempted from the normal rules.

This stability reflects political choice. After its initial flirtation with fiscal and monetary expansion, the Mitterrand Government not only did a U-turn in favour of "sound money," but deliberately decided to make the link with the D-Mark the pivot of its financial policy.

Part of the case for Britain following suit is the disarray of its monetary targets. It is no mere debating point that some analysts think monetary policy has been too tight and others that it is too inflationary. There is genuine uncertainty in how to analyse the data and set the intermediate objectives.

Above all, there is little confidence in the financial markets in any long-term domestic monetary guidelines, however set out. By contrast, an exchange rate target gives extremely clear signals of government intentions to the business community and clear rules for the Treasury and Bank in their interest rate policy.

It is precisely because the EMS is a formal institutional arrangement that a commitment to it will carry more conviction *than a target in terms of the* trade-weighted average. An EMS parity will indeed be difficult to change.

The knowledge that the UK is linked to the D-Mark will do more to moderate pay settlements than will all the monetary targets or incomes policies in the world. Without this external constraint, there is nothing to stop British unit labour costs continuing to rise by the 4 to 5 per cent shown on page 30 of the Budget Red Book for 1985-86.

The traditional objection to British membership is that sterling is a petro-currency. This was always exaggerated as 95 per cent of the British economy is non-oil. Moreover, now that the oil cartel has been — thank heavens — punctured and the oil price has fallen most of the way towards market levels, there are only the most vestigial remnants left of petro currency status.

The Prime Minister remarked recently in Parliament how wise she was to prevent sterling joining the EMS last autumn before the oil price collapsed when sterling was worth DM 3.7 to 3.8 compared with DM 3.4 in recent days.

There is, of course, never a right time to join. EMS parities can be adjusted in the face of an external shock. And if a halving of the oil price is not *a shock justifying a realignment,* I do not know what is.

A second objection is that the UK does not have sufficient foreign exchange reserves to operate in the EMS. In fact, the EMS augments reserves. For it not only has a short-term stabilisation fund, but pools all its members' reserves in the face of a run into or out of any member currency.

In fact, no government or bloc has the reserves necessary to defend its currency without interest rate rises and other measures of restraint.

At present the UK has most of the disadvantages of an exchange rate target with few of the advantages. Because there is no institutional framework, there is no market idea of any floor for sterling in periods of stress. When sentiment recovers the Government delays reducing interest rates for fear that the foreign exchange market will regard sterling as a one-way bet, with no upside potential.

Another canard is that EMS membership will force Britain to adopt exchange controls. Such controls are against the rules of the EEC and the EMS; and so far from encouraging exchange controls in France and Italy, EMS partners have been pressing with some success for their relaxation. The Socialist Government of President Mitterrand soon realised that exchange controls distorted finance and trade, without effectively protecting the franc.

A more interesting diversion is provided in Sir Alan Walters' generally fascinating new book *Britain's Economic Renaissance, where it is suggested* that there will tend to be a single interest rate within the EMS, thus raising German rates and reducing French and Italian ones.

The chart shows how far even "Euro" interest rates are from being harmonised. Interest rates will only be harmonised at that happy time when realignments become a thing of the past and inflationary differentials are slashed—in other words, *full monetary union.*

The EMS is far from a painless route to low interest rates. After all the first effective rule of membership is that rates have to be raised or lowered as much as necessary to maintain confidence in the currency.

Just as the Romans said, "If you want peace, prepare for war," so a modern EMS member government has to say to itself: "If you want low interest rates, you must be prepared to raise them very sharply in periods of crisis."

Thus EMS membership is likely to bring lower interest rates on average, with occasional blips when rates are sharply raised. Mrs Thatcher has an understandable fear that one of these blips will occur in a run-up to an election, out of fears that a Labour Government might devalue or take Britain out.

The same forces will be at work, alas, inside or outside the EMS. Outside they will begin to undermine sterling very much earlier. Attempts to blame Labour for a long period of sterling weakness will be much less credible than in the case of a short, sharp pre-election shock —which Labour leaders might even try to avoid by making Wilsonian sound-money noises.

But a fully satisfactory answer to the dilemma involves entering the field of electoral reform —which is far more of a no-go area around Number 10 than EMS membership itself.

Letters to the Editor

Nuclear power stations

From Mr P. Watts.

Sir,—Mr Bruce MP (March 24) suggests that conservation may be a better alternative than building new nuclear stations, and Mr Odell (March 25) says that recent falls in fossil fuel prices make fossil fuelled stations a more economic choice than any nuclear station. May I explain why the Central Electricity Generating Board believes both views are wrong.

First I should correct Mr Bruce's description of the CEGB: it is no more part of "the beleaguered nuclear industry" than it is part of the "beleaguered" coal industry.

As regards conservation, the public inquiry into the CEGB's proposal for a pressurised water reactor (PWR) took extensive evidence on this subject both from the CEGB and from other participants. What the CEGB endeavoured to show was that energy conservation and new power stations were not mutually exclusive. It did this by projecting the demand for electricity against a wide range of economic scenarios each of which made substantial allowance for increased conservation, ranging in the extreme cases from 40m to 250m tons of coal equivalent a year by 2000. Nevertheless, in each case new power stations were required not only to meet increases in peak demand but also the replacement of uneconomic old plant.

Mr Bruce also advises the CEGB to draw on the lessons of US experience in the area of energy conservation policy. In certain respects the converse is true with US utilities catching up on British practice in such matters as off-peak tariffs. Because of these tariffs the CEGB forecasts included relatively little use of electricity at peak times for space or water heating, the prime targets of conservation. In many other respects US conditions are different from those in the UK, which for example makes less use of electricity for space heating and air conditioning. In consequence US practice is not *necessarily appropriate* to the UK as has been recognised by the select committee on energy and by the Government in its response to its recent report.

Turning to Mr Odell, he is right to say that three years ago the CEGB expected strongly increasing real prices for fossil fuel. He is, however, wrong to imply that recent falls in these prices make fossil fuelled stations more economic than nuclear stations. He refers to a fall of a third in the real price of fossil fuels since 1981. It so happens that one of the cases investigated by the Sizewell inspector was a hypothetical fall of one-third between 1980 and 1990 with only a gradual recovery thereafter. Even on this assumption, Sizewell B was more economic than a new coal station (and would have the added advantage of providing diversity of primary fuel).

It was because Sizewell B was shown to be economic against such extreme assumptions that the CEGB regarded its case for Sizewell B as robust, and it still does.

P. E. Watts
(Economic Adviser),
CEGB,
15, Newgate St, EC1.

Go for the leverage

From the IT Strategy Manager, National Computing Centre

Sir,—On March 24 you quoted Sir Denis Rooke attacking the "extremely dangerous attitude in British industry which failed to regard training as an investment offering a profitable return."

How many readers are accustomed to invest heavily in assets which can leave to join a competitor at one month's notice? At a recent seminar on information technology skills shortages the average UK spend on training of 0.2 per cent of turnover was contrasted sharply with the average of around 2 per cent invested by our American and German competitors. As yet not enough attention has been paid to the reasons.

This centre's annual surveys show that around two thirds of IT users do not take on trainees and that staff turnover ranges from under 5 per cent (large organisations in the north) to well over 30 per cent (programmers in small departments in London and the south east). The patterns are consistent over a five year period. But which is the cause and which is the effect?

It is all very well to point to junior staff who leave for lack of career progression but how does one justify investment in developing skilled networking and communications staff when it is unlikely that the organisation can retain them for long in the face of City and freelance salaries for ready-trained and experienced staff.

Correct though Sir Denis's comments are, they are wasted breath until the poachers are made to pay realistic "transfer" prices for recruiting trained staff.

Levies and grants do not provide an answer because the problem cuts across all boundaries, public and private, as well as between different industries. The concept of treating pay while under training as a loan, to be repaid if the trainee leaves within a given period of time, may do so.

A large part of the difference between the UK and its overseas competitors is that their employers have more confidence that financially committed trainees will stay to repay the investment in training them. Until we can give our employers the same level of confidence, exhortations to do more are a waste of breath.

The scale of our skills shortages, particularly in information technology, have at long *last become a matter for public* debate. Let us therefore, like good engineers, go for the points of leverage, and not merely tilt at the sails of the windmill.

Philip Virgo.
11 New Fetter Lane, EC4.

Buy and hold oil

From Mr J. Francey

Sir, — The Western world should take advantage of the falling price of Organisation of Petroleum Exporting Countries' oil by buying it now and holding it in store. This would give totally oil-dependent economies the price they ask, and give a profit to the buyer when prices recover.

In these waters there are something like 46.7m dwt of tanker tonnage laid up at the *present* moment. Some of this could be chartered at economic rates for both transport and storage.

John B. Francey.
59, Aytoun Drive,
Erskine, Renfrew.

Land lying idle

From Mr J. James

Sir, — Your article on green belts and Tillingham Hall (March 18) serves to highlight the self-inflicted problems of a society which allows land to remain idle or derelict, while pressure to concrete green field sites mount, forcing the spending of public money on reclamation, public inquiries, homelessness and unemployment.

Surely the thousands of wasted acres quoted represent an *opportunity for literally* thousands of unemployed homeless people.

Surely a shift in the incidence of taxation, from labour and capital, could be achieved by taxing land values and reducing other tax levels. Such an act would stimulate land use, reduce land prices, provide jobs and homes and help price people into work.

Had the Budget emphasised this, we would certainly witness more than a derisory 1p off the income tax rate.

John James.
74, Malyons Rd,
Ladywell Village, SE13.

Pretty kettle of fish

From Mr M. Armistead

Sir,—*I feel that if Messrs* Gilbert and Sullivan were alive today they would have a fine old time composing a comic opera about the goings on in the Common Market — with particular reference to the CAP (common agricultural policy).

My wife (Swiss) and I (British, retired) live a part of the year just outside Geneva and right on the French border. *Switzerland is a very expensive* country and so once a week we make a shopping trip into France, and one item we purchase is butter, although the amount allowed back into Switzerland is strictly limited. But we do not buy French butter, no Sir, we buy Swedish butter which sells in a local supermarket at FFr 3.9 per 250 gm. This is equivalent to 39p and an obvious bargain. Also available is Austrian butter at FFr 4.6. The French butter however is priced at FFr 7.8-8.5 (min 77p). I was watching on a recent Friday evening, a busy period, and in five minutes customers bought 25 blocks of the Swedish and two blocks of the Austrian. The French quality was left entirely alone. Furthermore I should add that this is not a "one-off" situation. I have been visiting this same store (and others) *since October last year and this* Swedish butter has been available in quantity all the time. If this type of situation is allowed to continue I feel the butter mountain will surely reach 2m tonnes ere long.

M. B. Armistead.
Apartment 92,
8 Residence des Bugnons,
1217 Meyrin 1/GE,
Switzerland

High share prices?

From Mr R. Edler.

Sir,—Are present share prices really and unjustifiably too high?

In terms of Wilson-Callaghan devalued sterling they may appear so, but the FT Actuaries All-Share Index adjusted for inflation shows that anybody who invested in equities during the years 1972-73 has not yet, recovered his cost-price.

R. Edler,
4 Big Ben Towers,
Tower Street,
Msida, Malta.

FINANCIAL TIMES
Tuesday April 1 1986

Robert Thompson in Peking foresees a gaping hole in China's leadership

Deng lays ground for succession

THE ADMISSION by China's paramount leader, Deng Xiaoping, that he is seriously contemplating retirement has concentrated the minds of China watchers and prompted some to conclude that the "great leader" era of modern China could be coming to an end.

Rumours killing off Deng have circulated widely in recent months but with his first public appearance last week in three months, those rumours died an inauspicious death. According to Mr David Lange, the visiting New Zealand Prime Minister, who met the 81-year-old leader, he is "extraordinarily robust" and shows no sign of "anything remotely approaching surgical scars."

At a meeting with Mr Poul Schlüter, the Danish Prime Minister, earlier in the week, the chain-smoking Deng, who keeps an enamel spittoon by his side when receiving guests, said he is considering when to retire.

"During my meeting with foreign friends over the past few years, I have told them that my task is to disengage myself from work day-by-day until I'm totally disengaged. Then I will complete my task," he said.

Deng stressed that nothing would change when he left the scene – a point he has made more colourfully in the past: "I smoke and drink. I'm not afraid if the sky falls in. If it falls in we have people to prop it up."

The Chinese leader has been laying the foundations for his succession for the past five years, pensioning-off educated cadres in his own image. At last September's special party conference, 64 senior officials resigned.

The stated aim of the manoeuvring is a smooth transition, yet China after Deng will be a China with a gaping hole in its leadership. None of the potential successors has his public standing, and none has lived through the twists and turns of revolution and post-revolution as he has.

Two key platforms of Deng rule have been the delegation of authority and the institutionalisation of change in the upper ranks through the introduction of retirement programmes. Both lead some diplomats to suggest that he will be the last of China's "great helmsmen." They say the country will be run more collectively by bureaucratic leaders with much lower profiles than the dizzy heights reached by Mao Tse-tung.

Hua Guofeng, who led the country after Mao's death in 1976, vainly tried to cultivate a personality cult, but was banished after the rise of Deng in 1978 and remains in the political wilderness.

Diplomats say Deng has eschewed titles, unlike Mao and Hua, to ensure there will be no ugly grab for titular power. He refused the title of party chairman, and his main positions are as chairman of both the Central Military Commission and Party Central Advisory Commission, both senior posts, but hardly conferring the real power he wields.

But the best laid plans in Chinese politics go awry, as Hua's fate shows. Before he died, Chairman Mao was said to have annointed the obscure and obsequious Hua as his successor.

Diplomats are confident that there will be no abrupt changes in the military commission or advisory commission posts after Deng departs. Neither post has to be filled immediately, and no harm would be done in leaving them vacant.

They suggest that the final say will go to the communist party leader, Hu Yaobang, in what is expected to be a low-key transition to keep the potential disruption to a minimum.

Hu is likely to share power with the premier Zhao Ziyang, who heads the Government. Both men are unlikely to alter the course of "Dengism" that has led to the "open door" policy, and the ambitious programme of economic reforms.

Diplomats have no doubt that even if Deng retires, he will continue to exercise immense influence over China's policies, an influence that will pass only when he dies. That continuing influence will help to keep those against the present reforms in line.

However, his reforms will be all the more vulnerable after his departure because many have his personal imprimatur, and political opponents are known to be circumspect in challenging him. Hu does not inspire the same respect. He is prone to gaffes and thought to be unappealing to military power-brokers.

Hu last year gave a measure of Deng's power: "It is sufficient for him to say one sentence but we have to say five." Opponents to reform within the leadership think too much has happened too soon, while others are concerned that the emphasis on material development has undermined ideology, and advocate a less pragmatic line than Deng.

Certainly, Chen Yun, 80, will be worth watching, as he is seen as the figurehead of those who have reservations about "Dengism." Chen has his own economic blueprint, drawn up in the 1950s, and the passing of Deng would raise his standing and perhaps his ability to dictate economic terms.

Li Xiannian, the 76-year-old President, is also thought to have doubts about reform, although his power is not as great as the job title suggests, and his role post-Deng is expected by diplomats to be mostly ceremonial.

The lingering question is: when will Deng decide to retire? Diplomats had presumed that he would step down at a communist party conference next year, but his comments this week have divided diplomats into two camps: those who think he will retire this year and those who still think he will wait until 1987.

Britain offers to extradite Sikh extremists

By John Elliott in New Delhi

BRITAIN yesterday tried to defuse a growing diplomatic row with India over the activities of Sikh extremists in the UK with an offer of two amendments to British extradition law to enable India to put alleged extremists on trial.

Sir Geoffrey Howe, the British Foreign Secretary, yesterday started a three-day visit to New Delhi at a time when violence by Sikh extremists in the northern state of Punjab has escalated to record levels, claiming at least 100 lives in the past month.

Extra paramilitary forces are being rushed to where 15 people were killed at the weekend and an attempt was made to assassinate Mr Surjit Singh Barnala, the Sikh chief minister whose Akali Dal state government has lost control over the violence since it came to power last September.

Members of India's majority Hindu religion have been killed in the past few days as well as Sikhs. This has caused concern in the Government about a possible Hindu backlash against Sikhs which could cause widespread unrest outside the Punjab.

The escalation of violence has sharply increased India's impatience with the UK over the activities of Sikh extremists. Accusations made by Indian diplomats and politicians recently have suggested the British Government is being lenient with Sikh extremists to win immigrant votes in future elections.

A year ago the row slowed down negotiations on important contracts and yesterday Sir Geoffrey set out to persuade sceptical officials and ministers that the UK was doing all it could within British laws.

At three different meetings and functions he stressed British determination to stamp out terrorism and appealed: "Let's get on top of this together before it gets on top of us."

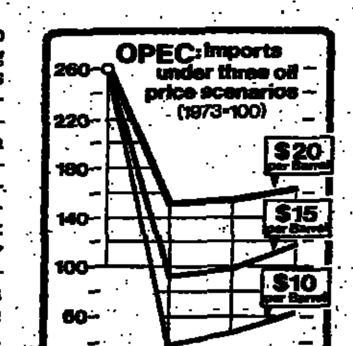
Sir Geoffrey offered to amend the Fugitive Offenders Act to provide for extradition of alleged offenders qualifying for more than 12 months in jail and to amend the Supression of Terrorism Act to cover people accused of conspiring to cause a serious crime in India.

This is in addition to earlier offers to include India in the Supression of Terrorism Act, which only covers some European countries and may soon be extended to the US.

THE LEX COLUMN

Hard times for black gold

As it becomes commonplace to talk of the crude oil price slipping under $10 a barrel, quite likely this week, the feeling hardens in financial markets that $10 oil is a serviceable background assumption for as far as the eye can see. Not only has Opec failed to agree on a production regime, but its efforts to regain volume in a shrinking market appear to have built in an entirely unwanted measure of price stability. Stability, that is to say, at prices far below anything the other Opec members can have feared when Saudi Arabia went hard after downstream net-back customers last September.



In one sense, this policy of regaining lost volume is not very different from the way that other Opec producers have always played around with the strict letter of successive output regimes. In 1985 the members of the cartel enjoyed revenues of about $130bn on the official basis and added about another $30bn by cheating – selling below the official price and outside the official quotas.

Fast and loose

The cartel undermined itself in this way, and did so consistently, from the moment the price came under chronic pressure and was first officially reduced in 1983. The Opec producers were obliged to deceive each other, in a well understood and conventionalised way, because the allocated share of output was generating insufficient revenue, on a declining price, to cover the import bill, including debt service. Even with a policy of cheating to create a cushion of illicit revenue, the Opec countries have reduced their aggregate import volumes by a quarter in the past three years. Yet the progressive decline of spot prices has meant that this degree of restraint was never enough to keep the joint current account in surplus.

At $20, the damage to import capacity seems tolerable though exceedingly uncomfortable. With a current account deficit held to $10bn – the limit of what can reasonably be financed without running down the financial reserves of the richer members – the volume of imports in 1986 would have needed to be less than half what it was in 1983. But at $10, the reduction would be more like 90 per cent. Opec officials have seen the possible consequences; their fears of political unrest were being reported even before the failure to agree output levels in Geneva.

That the financial constraints have bitten on Saudi Arabia itself was implicit in the switch from output restriction to the pursuit of contracted net-back volume. As Salomon Brothers observe in a recent note, the decision followed hard on the publication of a $24bn 1984 current account deficit which amounted to more than a fifth of Saudi GNP. Further exaggerating the example of the US, the Saudi budget deficit is thought to have exceeded $15bn in 1985 at an average oil price of around $26. The postponement of this year's budget, until August at the earliest, is a confession that not even the former swing-producer can now balance its books without drawing upon past surpluses.

The difficulty has been compounded by the falling value of the dollar. That has eroded a noticeable part of the value of the Opec balances. It has also raked the terms of trade against the oil producers, whose dollar revenues have been used to buy imports largely from markets other than the US.

Only if the other Opec states have genuinely tired of trying to outflank one another, and can persuade the Saudis that output restriction is more than a poetic ideal, is it likely that the oil producing world will escape the demoralising fate of pumping more oil for less revenue. But to reverse the direction of the escalator would require such discipline in the face of a revenue collapse that recent talk of a tougher collective stance must strike the bankers as so much whistling in the dark.

The minimum that would appear necessary, to take the pressure off Opec domestic budgets and make room for renewed sacrifice on extraction volumes, is an attack on the services component of the current account deficit. That is not, however, a promising place to ask for austerity measures. An interest moratorium would make only a marginal difference, 10 to 15 per cent of the gap, if Opec's creditor banks proved flexible to a fault. Yet flexibility in the rest of the budget is harder still to seek. A good part of the outflow appears to be financing the Gulf war, and that still seems to be a commitment which takes priority over more commercial interests.

Long and hard

It remains possible that the oil producer with the longest purse is trying to play a longer strategy than it has admitted. Low prices are already knocking out a fair amount of high-cost production, though not nearly enough to tighten the short-term market in early spring. If sustained, however, such prices will devastate the small exploration and production companies, already cutting dividends and looking to the sale of reserves for ready cash. Fields that would have been profitable at twice the price will stay undeveloped, and the West will be reliant again on Gulf oil some years sooner than it used to think. Meanwhile, the demand for oil must respond to the falling price, perhaps regaining 6m barrels a day from substitute fuels if the price were to stick where it is until 1988.

If that is the policy, it is indeed a rough as well as a dangerous one. The wear and tear on Opec outside the minimum-cost Gulf producers could be alarming. Yet the established North Sea fields (and the North Slope) will continue to pump until the marginal revenue is as near zero as makes no odds. And when it comes down to it, not all the liquid resources of Saudi Arabia can withstand sub-$10 oil for more than about three years.

Oil crisis unsettles Arab bankers

By Patrick Blum in Vienna

ARAB banks ended a two-day meeting in Vienna uncertain as to the way forward in the face of falling oil prices.

The meeting, organised by the Union of Arab Banks (UAB) to discuss "the future of Arab banking in the face of declining oil revenues" was attended by senior bankers and officials from more than 80 banks in 19 Arab countries.

Several speakers outlined the growing dangers as well as opportunities facing Arab banks in a world of falling oil prices. Mr Abdulla Al-Saudi, chief executive of the Bahrain-based Arab Banking Corporation, warned that the Arab world could face a serious debt crisis. He called for concerted efforts by Arab bankers to convince international banks not to "run away from Arab risk."

He said Arab banks would face a considerable challenge in the next few years. The total Arab world debt stood "roughly halfway" between the $60bn World Bank estimate for 1983 and the $130bn estimate for 1984 compiled from joint figures of the OECD and the Bank for International Settlements.

He said Arab banks had a medium-term hard currency exposure to Arab countries of around $12.5bn.

Mr Al-Saudi said that, because of a general decline of banking confidence in the Arab world, Arab banks could face pressure to increase lending to Arab countries and to look more to their own regional markets. However, he warned that there was a limit to what Arab banks could reasonably be asked to do.

"I do not believe that the major Arab international banks should accept this role without questioning… It would not be good banking to become too heavily concentrated on Arab risk instead of diversifying," he said.

In contrast, Mr Anwar Al-Shalil, of the Union of Arab Banks, called for more Arab funds to be invested in Arab banks. To compensate for declining oil revenues, Arab banks should improve their internal controls with closer co-operation between banks in each country. He said they should seek mergers to create banks large enough to be competitive internationally.

Matsushita may take stake in Thorn-EMI Inmos subsidiary

BY TERRY POVEY IN LONDON

THORN-EMI, the UK electronics group, is negotiating the sale of up to half its micro-chip subsidiary Inmos. The group is seeking two or more partners to take stakes in Inmos, although it said it would prefer to keep a controlling interest for itself.

One of the companies Thorn is talking to is Matsushita Electric Industries, the Japanese electronics group.

Thorn wants to spread the financial load of developing its advanced transputer microprocessor chips in order to repair some of the damage done to its balance sheet. The group also wants the backing of an end-product manufacturer to tie up some potential long-term customers.

A Thorn executive said yesterday that Matsushita was well suited to Thorn's needs but talks were also being held with other major electronics companies.

Thorn paid £125m ($184m) for Inmos in 1984. However, the chipmaker has recorded continuous losses – the latest of which was a £12.5m trading loss for the six months to September. The key to its future lies in its transputer "computer-on-a-chip" technology, critical to the development of fifth-generation machines, in which Inmos has a leading position.

Worldwide marketing of the transputer began in November. By the end of the year about 750,000 in orders had been placed.

Among orders received so far was one from Matsushita for £250,000 worth of the transputers. There has also been considerable US interest.

Transputers, which sell for between $300 and $500 each, enable the speed of data processing to be greatly increased. Because of this transputers, with as many as 250,000 components each, have become an important alternative to large-scale chips made from expensive rare materials.

For Thorn the disposal of almost half of Inmos would come as welcome relief. When the half-year results were published in November, net debt totalled £507m, or 70 per cent of shareholders' funds.

The recently completed £110m sale of Screen Entertainment, Thorn's cinema and film subsidiary, has helped to reduce much of the pressure on the balance sheet. However, the millions needed to be spent at Inmos developing the transputer range of products during the next few years could mean this relief might only be temporary, according to City of London analysts.

Embassy staff told to quit

Continued from Page 1

Mr Marcos declared martial law in 1972. He served as editor in chief of the Manila Times when it was reactivated two days before the presidential elections this year.

He indicated that Marcos loyalists and other embassies worldwide could also face the axe under the new "revolutionary government" as their terms of service expired.

Meanwhile, leaders of the New Society Movement (KBL), created by Mr Marcos in 1978, said they would challenge in the supreme court the validity of a new constitution proclaimed by Mrs Aquino.

The KBL members agreed to strengthen the party under a new name and leadership.

Mrs Aquino, who assumed the presidency after a civilian-backed military revolt, drove Mr Marcos into exile on February 26, abandoned his constitution last Tuesday and gave herself sweeping powers to rule by decree.

She said a special commission would be named within 60 days to draft a new constitution.

Austin Rover losses

Continued from Page 1

nearly 20 per cent down on the comparable month last year.

The dip in new car sales after last year's record has left most companies with fairly high stocks. However, Austin Rover, unlike Ford and General Motors' Vauxhall subsidiary, which can reduce imports, is particularly vulnerable.

The state-owned company cut production schedules and laid off manual workers for more than two weeks' extra holiday towards the end of last year. But stocks remain high, particularly of the volume Metro, Maestro and Montego models.

Vauxhall pushed Austin Rover into third place behind market leader Ford in the first two months of this year. Austin Rover has again lagged behind the American multinationals for much of March but believes a surge of late registrations could see it sneak into second place with around 17 per cent

Mr Ray Horrocks, the BL executive director responsible for the cars division, complained that denigrating comments by politicians cost the company 2 to 3 percentage points of UK market share in February.

Austin Rover insisted last night there was a direct correlation between comments on the floor of the House of Commons and traffic through the showrooms. It said sales had begun to improve from the moment Mr Paul Channon, the Trade and Industry Secretary, made clear there was no prospect of a takeover by Ford of Europe.

BL last night refused to comment on the 1985 results but said they should be viewed in the context that volume car makers throughout Europe had suffered heavy losses in recent years.

An Austin Rover trading loss approaching £10m would be an improvement on the £28m deficit announced for 1984. BL does not disclose net figures for its subsidiaries, but accounts filed show Austin Rover benefited from a rise in tax recovered to £20.8m to give a net loss of £22.5m for 1984.

Right-wing party set to win Sudan election

BY MURRAY BROWN IN KHARTOUM

SUDAN'S VOTERS go the polls today for the first free elections in almost 20 years. A total of 47 parties will contest 301 seats for the proposed Constituent Assembly. However, in the south where civil war continues, returns are expected for no more than half the seats.

In a two-month election campaign characterised by occasional violence between Moslem and Christian groups and a pervading apathy on the part of most potential voters, the right wing Umma Party led by Mr Sadiq el Mahdi has emerged as likely victor.

While the Umma Party is set to take the lion's share of the seats, the other big parties – the Democratic Unionists, the fundamentalist National Islamic Front (NIF) and the Communist Party are expected to carve up the remainder.

However, in the likelihood of no single party winning an outright majority in the assembly, political observers believe the NIF, formerly called the Moslem Brotherhood, could hold the critical balance in any hung parliament.

The Brotherhood was behind former President Gaafar Nimeiri's introduction of Islamic Sharia law in 1983, which helped to revive the civil war in the predominantly non-Moslem south.

The run-up to the election has seen an escalation in the hostilities in the south, where government troops are pitted against the Ethiopian-backed Sudan People's Liberation Army. The outgoing administration of Gen Swareddahab recently used Libyan supplied TU22 long-range bombers in raids on rebel positions in the south.

It remains to be seen whether a new government will be able to make headway in talks with rebel leader Dr John Garang. Up to now negotiations with Dr Garang have come to nothing.

The other big problem facing an incoming government is Sudan's worsening debt crisis. Relations with the International Monetary Fund (IMF) have reached an all-time low. Arrears owing to the IMF – exceeding $270m – are the highest of any member country, and account for over 50 per cent of all amounts outstanding to the IMF.

In February the IMF declared Sudan ineligible for further loans and according to Western economists a new government would have to introduce large-scale reforms before the IMF resumes talks.

Former President Nimeiri's economic measures of March last year, in line with IMF proposals, sparked off widespread protest which led to his downfall in a coup last April.

Reuter adds: Sudan has decided to dissolve the institutions set up under its 1982 integration agreement with Egypt, which Khartoum views as an extravagant and irrelevant legacy of President Nimeiri.

A cabinet meeting took the decision on Sunday on the grounds that the integration "was an act imposed from above which did not express the joint interests of the two peoples," the official Sudan news agency Suna said.

Violence flares at Ulster march

Continued from Page 1

cal Catholics said their houses were damaged by stones thrown from the parade and complained of lack of police protection.

Mr Paisley said the ban showed "all who are opposed to the Anglo-Irish agreement are going to have their basic rights taken from them on the pretext that this is the law of the land.

Prominent members of the Official Unionist Party (OUP) were conspicuous by their absence from the midnight parade.

Although the OUP has attacked Mr King's ban, many members of this more moderate party will be disturbed by yesterday's violence, which followed similar unrest during a one-day strike on March 3 against the agreement.

Police yesterday reported only minor disturbances at other loyalist rallies around the province.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	17	63	Dubrovnik	S	15	59	Malta	F	17	63	Rhodes	F	19	66
Algiers	S	21	70	Edinburgh	S	7	45	Manchester	C	3	37	Rio de J'o	C	33	91
Amsterdam	R	5	41	Faro	S	18	64	Manila	S	22	72	Rome	S	16	61
Athens	S	19	66	Florence	C	13	55	Melbourne	S	18	64	Salzburg	F	15	59
Bahrain	S	27	81	Frankfurt	R	10	50	Mexico City	S	25	77	San Francisco	C	15	59
Bangkok	S	35	95	Funchal	C	17	63	Miami	C	24	75	Seoul	S	13	55
Barcelona	-	—	—	Geneva	C	11	52	Milan	S	17	63	Singapore	F	31	88
Beirut	S	21	70	Gibraltar	S	19	66	Montreal	C	23	73	Stockholm	C	3	37
Belfast	R	5	41	Glasgow	S	7	45	Moscow	S	9	48	Strasbourg	F	15	59
Belgrade	S	17	63	Guernsey	R	8	46	Munich	S	15	59	Sydney	C	22	72
Berlin	R	7	45	Helsinki	C	2	36	Nairobi	F	26	79	Taipei	C	18	81
Biarritz	S	17	63	H. Kong	C	17	63	Naples	F	17	63	Tangier	S	20	68
Bombay	S	28	84	Innsbruck	F	7	45	Nassau	S	26	79	Tel Aviv	R	17	63
Bordeaux	C	12	54	Inverness	R	3	37	New Delhi	S	27	81	Tenerife	F	20	68
Brussels	F	10	50	Islamabad	C	27	81	New York	S	26	78	Tokyo	C	14	57
Budapest	F	12	54	Istanbul	F	11	52	Nice	S	22	72	Toronto	C	25	77
B. Aires	C	29	84	Jakarta	C	32	90	Nicosia	S	20	68	Tunis	F	20	68
Cairo	[illegible]	[illegible]	[illegible]	Jersey	[illegible]	[illegible]	[illegible]	Oporto	[illegible]	[illegible]	[illegible]	Valencia	[illegible]	[illegible]	[illegible]
Cape Town	[illegible]	[illegible]	[illegible]	Jo'burg	[illegible]	[illegible]	[illegible]	Oslo	[illegible]	[illegible]	[illegible]	Venice	[illegible]	[illegible]	[illegible]
Caracas	[illegible]	[illegible]	[illegible]	Lima	[illegible]	[illegible]	[illegible]	Paris	[illegible]	[illegible]	[illegible]	Vienna	[illegible]	[illegible]	[illegible]
Casablanca	[illegible]	[illegible]	[illegible]	Lisbon	[illegible]	[illegible]	[illegible]	Peking	[illegible]	[illegible]	[illegible]	Warsaw	[illegible]	[illegible]	[illegible]
Chicago	[illegible]	[illegible]	[illegible]	London	[illegible]	[illegible]	[illegible]	Prague	[illegible]	[illegible]	[illegible]	Washington	[illegible]	[illegible]	[illegible]
Cologne	[illegible]	[illegible]	[illegible]	Los Angeles	[illegible]	[illegible]	[illegible]	Reykjavik	[illegible]	[illegible]	[illegible]	Zurich	[illegible]	[illegible]	[illegible]
Copenhagen	[illegible]	[illegible]	[illegible]	Luxembourg	[illegible]	[illegible]	[illegible]								
Corfu	[illegible]	[illegible]	[illegible]	Madrid	[illegible]	[illegible]	[illegible]								
Dallas	[illegible]	[illegible]	[illegible]	Majorca	—	—	—								
Dublin	[illegible]	[illegible]	[illegible]												

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

SECTION III

FINANCIAL TIMES SURVEY

Small Businesses

Entrepreneurs face a maze of schemes to help them set up and expand. But governments are becoming more demanding of performance in return for such favoured treatment.

Pressure to deliver

By William Dawkins

SMALL businessmen throughout Europe are coming under a new pressure. After years of being showered with all kinds of assistance measures, entrepreneurs are now being called upon to deliver the goods.

Western European governments have been painfully conscious of the widening economic gap between themselves and more aggressively entrepreneurial nations like the US and Japan for some time and cultivating the growth of small businesses has played an important part in European attempts to reverse the decline in international competitiveness.

Accordingly, a wide range of public and private sector stimulants for small business activity, from venture capital to tax incentives, advisory and training schemes and measures to cut red tape, has emerged recently.

High expectations (some critics say too high) have been placed on small businesses to exploit new technologies in a more entrepreneurial fashion than their supposedly cumbersome and bureaucratic big company counterparts and to take people off the unemployment registers, a problem which lies heavily on most governments' minds.

But having been pushed close to the centre of the European political stage, the small businessman is now being expected to perform, and to justify the favoured treatment he has been receiving.

In the UK in particular, the Government's thinking has entered a new phase in which interest is centring on improving the effectiveness of existing schemes and reducing official intereference in business life rather than on concocting exciting new measures.

Dwindling

At the same time, small businessmen in Britain are aware that while they might find willing champions for their cause at the Department of Employment (which took responsibility for the sector from the Department of Trade and Industry last autumn), other departments are less sympathetic.

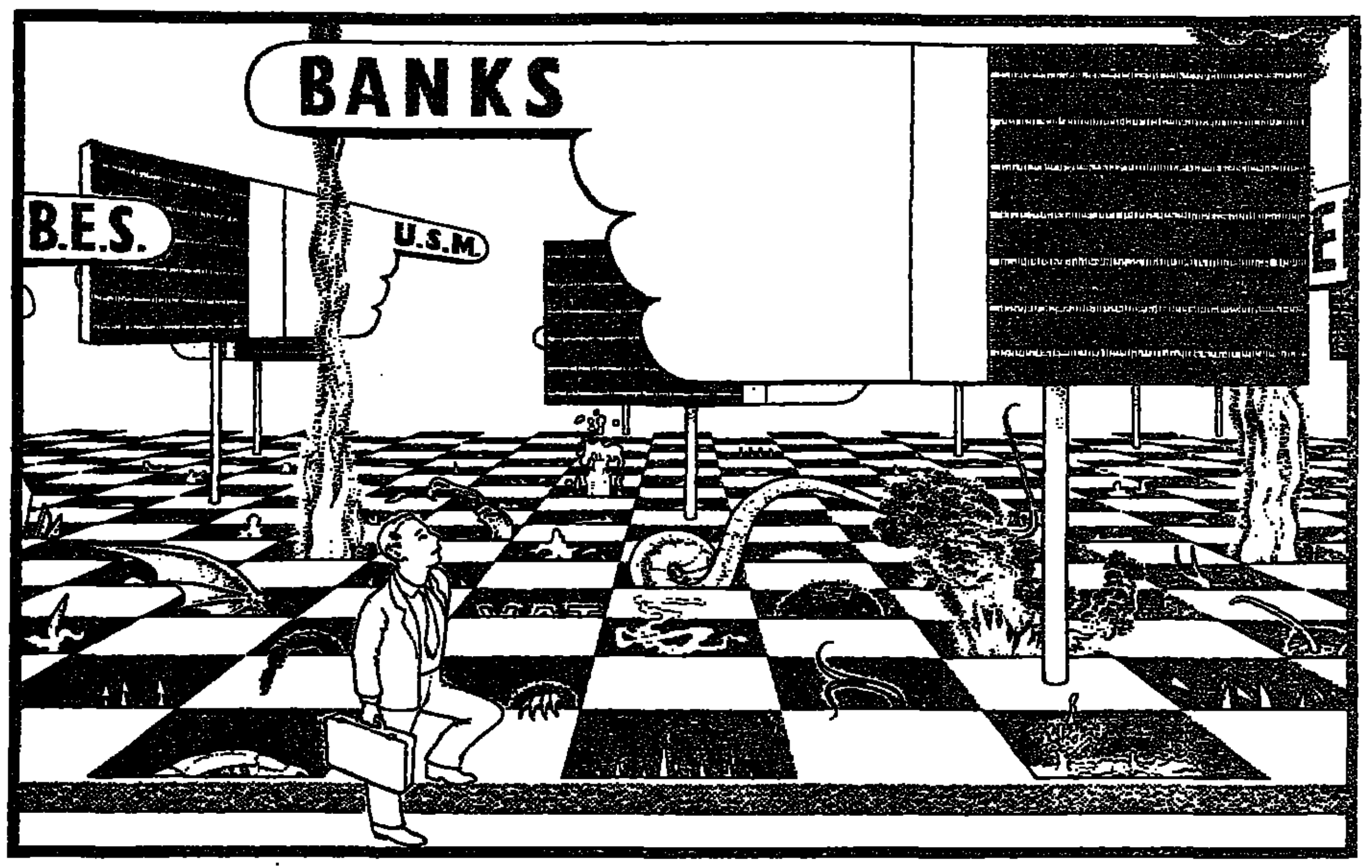
"Outside the Department of Employment, there is a cooling of enthusiasm. The Government believes it has done a lot for small businesses and it is therefore up to the small businessmen to deliver," says Mr Barry Baldwin, chairman of the Union of Independent Companies, and a partner in accountants Price Waterhouse.

Even in the US, the home of venture capital, political support for the sector is dwindling. The Small Business Administration, provider of assistance and soft loans, and advocate of the entrepreneurs' cause in government was threatened with cuts last year. The admittedly bureaucratic SBA was threatened again — this time with total abolition — in President Ronald Reagan's February Budget proposals.

Such disillusion with the entrepreneur's cause is a long way off in Britain, where there is ample evidence that small businesses are beginning to respond to stimulus. Their job-creating potential was underlined by a study by the Small Business Research Trust, a privately funded research body, which estimated that the sector (broadly, companies with up to 100 staff) has created beween 800,000 and 1.1m jobs over the past six years.

If that is true, British unemployment would be a quarter higher were it not for the jobs created by small enterprises.

At the top end of the small business scale, there is no doubt that the burgeoning Unlisted Securities Market has done more than any government measure during its five-year history to glamorise the virtues of entrepreneurship.



More than 400 companies have tasted life on the USM, and in the process turned many hundreds of their proprietors into millionaires. The publicity offered by a USM flotation, just as much as the opportunity for raising capital — £200m last year — has enabled small businessmen to enjoy the fruits of their success in a way that would have been considered neither decent, nor possible, five years ago.

The less spectacular — but still impressive — growth of the *Over-the-Counter markets* has done the same thing for businesses too small or too young to join the USM. Even lower down the scale, the Business Expansion Scheme has established itself as a fast-growing and highly popular source of finance for unquoted companies, despite the way in which it has been exploited by ventures which could have easily raised cash without government assistance.

More than 1,400 companies used the scheme in 1984 and 1985, and the current tax year's inflow is expected to add substantially to that figure. Both the BES, with its generous tax concessions for private investors, and the USM have been important forces behind the fast growth of venture capital in Britain.

The BES has brought large *numbers of private investors* into venture capital for the first time, while the USM has provided a route by which venture capitalists can realise their profits. About 50 venture-backed companies have joined the USM over the past four years and many more are waiting in the wings.

It is largely thanks to such *influences that there are now* roughly 130 venture capital groups in Britain as against barely a dozen in the late 1970s. Indeed, Britain spends a higher proportion of gross domestic product—0.69 per cent according to the European Venture Capital Association—on venture capital investment than the US and all its European competitors.

Cultural factors have also *played a part, notably a growing* realisation among industrialists and financial institutions that small independent units can be more cost-efficient and faster-moving than large integrated organisations.

Nothing exemplifies this more clearly than the spectacular growth in management buy-outs over the past year. Although buy-outs are getting much larger in line with US trends (the average UK deal in 1985 was worth £6m) their popularity still reflects a recognition of the value of the entrepreneurial edge that can come by switching from employee to independent owner manager.

Meanwhile, activity at the very bottom end of the small business scale is also bubbling strongly. Here an important part is played by Britain's 314 local enterprise agencies, partnerships between the

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Small Businesses 2

The UK Scene

SMALL businesses have never been so close to the centre of the political stage in Britain as they are today. Whether this has made life easier for small businessmen is another question, yet the sector is now supported by an unprecedented amount of ministerial interest.

With the unemployment rate staying stubbornly high at more than 13 per cent, the Government is turning increasing attention to small businesses as job creators.

"I still cannot see that large firms will increase their share of the labour market," says Mr David Trippier, the small firms' Minister. "Last year, ICI had the highest profit that any UK company has made and is still shedding labour."

Nothing illustrates the significance the Government attaches to the sector more clearly than last autumn's Cabinet reshuffle, which switched control for small businesses and enterprise away from the Department of Trade and Industry to the Department of Employment under Lord Young. Enthusiasm for the sector had been waning at the highest levels in the Department of Trade and Industry.

Lord Young's appointment as Employment Secretary had the additional advantage of giving considerable political authority to his new Enterprise and Deregulation Unit, the anti-red-tape task force which many observers feared had lacked power when Lord Young was in his old job of Minister without Portfolio.

It is more than a coincidence that the reshuffle was followed by an autumn statement from Mr Nigel Lawson, the Chancellor of the Exchequer, full of generous handouts for small businessmen. This included £2.5m for enterprise agencies, an extension for the Loan Guarantee Scheme, and more places for the Enterprise Allowance Scheme, which was boosted further in last month's Budget.

Some ministers privately feel it unlikely that such a package would have been forthcoming from a notoriously tough Treasury if small businesses had stayed in the hands of the DTI.

The move also significantly widened Mr Trippier's influence by giving him control of the Manpower Services Commission's training schemes in the Department of Employment. Accordingly, MSC training is likely to concentrate more on the weak area of management education for small businessmen. Proposals are in the pipeline to link MSC training more closely with the Enterprise Allowance Scheme.

The Government's small business policy is undergoing several important changes. The effectiveness of subsidies introduced in its last terms of office like the Business Expansion Scheme and the Loan Guarantee Scheme is coming under close scrutiny.

David Trippier, the small firms Minister . . . He wanted 300 enterprise agencies in three years—now there are 314.

Dynamo for job generation

Such measures are being kept alive or being revitalised, but the focus of policy is moving more towards attempts to improve the general legislative and administrative climate in which all businesses operate. Hand-in-hand with this goes a shift away from attempts to generate start-ups towards measures designed to help all businesses grow.

"Job creating potential lies with existing companies employing fewer than 50 people, rather than with start-ups — though we will have to concentrate on both," Mr Trippier says.

Last July's White Paper, called Lifting the Burden, was aimed at reducing unnecessary paperwork for all types of companies even though it did have a bias towards small businesses—and that was one of the high points of small business policy during the year. It outlined almost 80 measures to make the businessman's life easier, and led to the formation of an anti-red-tape task force within the Enterprise and Deregulation Unit.

Modelled on the US Office of Management and Budget, it monitors new legislation to attempt to limit costs imposed on business.

The Government's anti-bureaucracy crusade has had little time to claim campaign victories. But some observers point out that this policy sits uneasily against recent pieces of administrative legislation which impose new administrative burdens on businessmen, like the Data Protection Act and the extension of the Statutory Sick Pay system. A paper last month by the National Federation of Self Employed and Small Businesses detailed 39 recent government actions which had made their members' lives more complicated.

However difficult it might be to get quick results (conflicting inter-departmental interests have been a problem), cutting red tape is seen as a good option because it tackles an almost universally recognised problem and does not involve trying to squeeze cash out of a Treasury that is drawing the purse-strings increasingly tight.

Mr Trippier is also a great believer in simplifying existing measures where they cannot be withdrawn or reformed. One of his final tasks at the DTI was to reorganise the department's 64 industrial assistance schemes into four simple packages. He is now seeking to do the same at the Department of Employment to the 70 leaflets dealing with health and safety legislation. A simplified guide to employment regulations was also due out at the time of writing.

One of the most widely publicised aspects of the Government's small business policies has been its support for local enterprise agencies, partnerships between private sponsors and local authorities which provide training and advice for entrepreneurs.

The emphasis is changing here, too. Mr Trippier surprised many people shortly after the last general election when he called for the establishment of 300 enterprise agencies within three years. It seemed a remote target.

Now that there are 314 he can feel vindicated. However, there are fears that the movement has grown too fast for its own good. Mr Trippier is the first to admit that too many agencies are of indifferent quality, while others overlap with other small business groups. There are also anxieties about the ability of private corporate sponsors to continue to provide money and managers on loan as generously as they have done in recent years.

"I am concerned about improving the quality of those agencies already in existence rather than seeing more. This year, the growth in the number of agencies being set up should reach a plateau. In any case, we cannot expect large companies to go on producing a 50 per cent increase in the number of secondees," says Mr Trippier.

He plans in the coming year to examine the scope for providing agencies with full-time directors to supplement the work put in by managers on temporary secondment. Mr Trippier is also keen to get more of these bodies to act as agents for MSC training programmes.

The Government's support for enterprise agencies is undiminished, in spite of anxieties over their development. It recognises that the agencies in many ways are closer to local business communities than the 12 regional centres of its own Small Firms Service, implicit in the extra subsidy the agencies are getting this year. The service, which answers telephone inquiries and provides counselling from retired managers is believed to have been losing customers to the agencies for two years.

William Dawkins

Enterprise Allowance Scheme

Drawing up a business on a weekly subsidy

WHEN 23-year-old John Armstrong left school four years ago, the future in his home town of Newcastle upon Tyne looked bleak for him.

In spite of his two A levels, he found it almost impossible to get a job in a region where unemployment remains stubbornly high. Temporary work with the Inland Revenue and on a Manpower Services Commission (MSC) community project kept him occupied on and off for two years, but brought him no closer to making a permanent break with the dole queue.

Now John is just completing his first 12 months as a professional cartoonist—an example of his work is shown—thanks to a £40 per week subsidy provided through the MSC's enterprise allowance scheme.

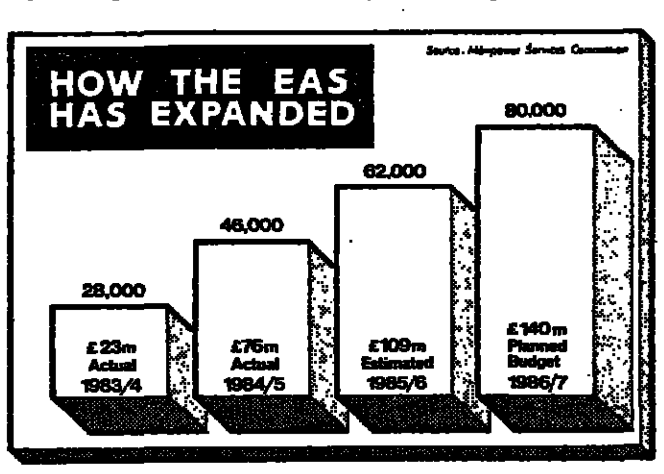
It is no path to riches. Turnover has been a mere £500 or so in the first year and John Armstrong Cartoons has made a negligible profit, "but it's a lot better than being on the dole," he says. "Even if I fail, the fact that I have run my own business for a year could be deemed as a qualification for a job," adds John, who started drawing cartoons as a hobby while he was at school.

He is among the 121,000 people to have been helped by the scheme to set up their own businesses since its inception just over four years ago. After an 18-month trial in five pilot areas, the scheme proved so successful that it was launched nationwide in August 1983. Despite being expanded substantially in subsequent years, it still shows few signs of exhausting demand for the weekly grant.

The Government's delight with the scheme was underscored last autumn when the number of places available in 1986-87 was lifted from 62,000 to 80,000—and when its annual budget was boosted from £109m to £142.5m.

At the same time, entry requirements were eased with effect from today so that applicants now have to be unemployed for only eight weeks before joining instead of 13 as previously. Four of those weeks can be spent under notice of redundancy, so participants need not be without work for more than four weeks.

If he laughs at the jokes, you've got an enterprise allowance



The EAS received another important boost in last month's Budget when the number of entrants was boosted to 100,000 to take effect by next April, making room for more than 1,900 entrants per week. At the same time, the Chancellor moved to improve the tax treatment of EAS participants, who under the old rules could pay tax several times on EAS subsidies.

Similar subsidies do exist in other European countries, but the scheme has struck a particular chord in Britain because it has channelled money towards breaking down one of the most important barriers to getting the jobless into self employment. Since jobless people rarely have savings, it is hard for them to sacrifice the security of unemployment benefit to set up their own ventures.

The scheme softens the shock, providing a regular taxable income, paid fortnightly into the business's bank account for a year, by which time the venture is expected to be producing enough cash to fund itself.

Counselling

Applicants have to prove their seriousness by showing they can lay their hands on £1,000 to put into the business. This does not, however, have to be cash. An overdraft facility attached to a business account will do.

Few banks will turn down an overdraft request from a well-planned venture funded by the scheme, since it is a condition of the allowance that the grant is paid directly into an account opened for that purpose.

PUBLIC SECTOR FINANCE

Some banks offer free banking to recipients of the allowance. The Midland even offers customers a free counselling session after nine months' participation in the scheme.

Among the other conditions for grants under the scheme are that applicants must be more than 18, work full time in the business, that the business must be new and that the proposal must be suitable for public funding. Gambling clubs, nightclubs or betting shops will not qualify for the allowance.

The strictness with which entrants are controlled is reflected in an encouraging survival rate. According to the MSC, 86 per cent of participants are still trading 15 months after start-up, while 61 per cent are still going after three years.

It is harder, however, to be precise about the number of genuinely new jobs created by the scheme. MSC surveys show that every 100 businesses started with an enterprise allowance create an extra 68 jobs within the first 15 months of their existence, rising to 99 jobs after three years. This suggests that the current year's intake could produce more than 115,000 within the next 15 months.

The MSC estimate that about half of the people who come into the programme would have started their own businesses in any case, with or without the allowance. Another quarter, it says, indirectly put other people out of work elsewhere in the economy thanks to the subsidy.

That means, according to the MSC, that only one out of every four jobs funded under the scheme actually takes somebody off the unemployment count.

Permanent

The MSC believes that the initial net cost per job after deadweight and displacement is around £8,000, which looks expensive against the £4,000 cost per job under its community programme, whereby the unemployed are paid to carry out projects of benefit to local communities.

However, unlike the community programme, the enterprise allowance scheme is designed to provide permanent jobs. Taking into account the new jobs generated indirectly by the scheme and the tax contributions they make, the cost soon drops to something like £100 per job by the second year, claims the MSC.

If the bare qualifications for an enterprise allowance are strict, the monitoring and appraisal devoted to participants is in some ways even more detailed than that inflicted by banks on their commercial clients.

The first contact and information point is the local Jobcentre, where staff will assess potential applicants' eligibility. Hopefuls then have to participate in a seminar—25 people at a time —run by the Department of Employment's Small Firms' Service. It is only at the end of these seminars that application forms are passed out.

Then follows a private interview with a business counsellor, which usually takes place when payments start, followed by another two personal sessions during the one-year period during which the allowance is paid.

The MSC will pay a monitoring call three months after start-up and selects 50 per cent of participants at random for subsequent spot checks.

William Dawkins

Under pressure to deliver

CONTINUED FROM PAGE 1

private and public sectors devoted to assisting small businesses. These claim to be involved in creating more than 50,000 jobs annually through business start-ups and another 25,000 through help from existing businesses.

Their efforts have proved that there is no shortage of goodwill for struggling entrepreneurs among big corporate sponsors—though how readily they will buy small business products is another question—and that there is no shortage of demand for their help. There are, however, anxieties over just how long private sponsors' generosity towards enterprise agencies can last.

Renaissance

Official measures like the Loan Guarantee Scheme and the £40 per week subsidy available under the Enterprise Allowance Scheme have also made substantial contributions to building the ranks of the self-employed. So far, 121,000 people have been helped by the EAS and 17,000 businesses have made use of the LGS, though the popularity of the latter has suffered because of its high cost to borrowers.

Despite all this evidence of a renaissance in entrepreneurial activity, however, serious problems still remain in the small businessman's way. The Government's drive to cut red tape has started to have a limited impact in Whitehall, but critics maintain that burdensome new regulations—like this year's extensions to Statutory Sick Pay rules and the arrival of the Data Protection Act—are growing just as fast as old ones are being pruned.

"We are fed up with a stream of anti-small business legislation," Dr Bernard Juby chairman of the National Federation of Self-Employed and Small Businesses complained recently. Last month, the federation listed 39 government actions that have made entrepreneurs' lives harder.

Funding remains a barrier for businesses looking for equity capital of less than £100,000. Venture capitalists find it uneconomic to handle such small deals, a fact which many businessmen find hard to reconcile with fund managers' contention that there is a dire shortage of good quality start-up ventures in Britain.

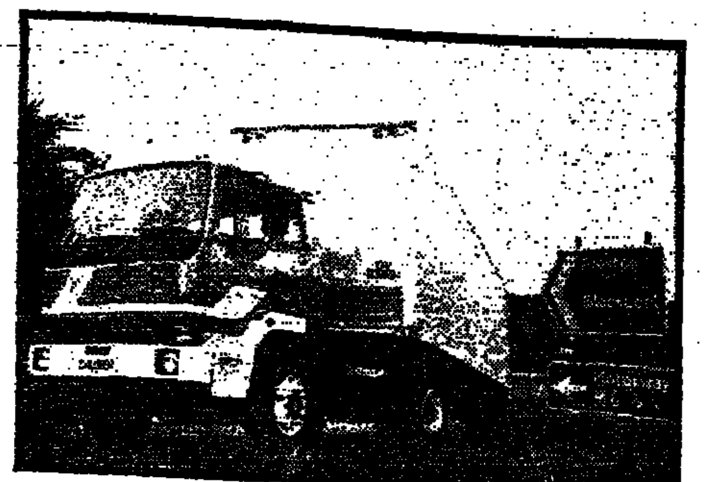
Nevertheless, measures like the BES and the LGS have done much to make the so-called funding gap smaller. The 1971 Bolton report on small company finance reckoned the funding gap began at £250,000. That is about £1m in today's money, well within the scope of most venture capitalists and an indication of the extent to which the gap has diminished.

Some observers, however, still feel that the many incentives and assistance measures available for small businessmen are still going over the heads of those who need them most. Progress has certainly been made in simplifying the presentation of several official schemes, yet there are fears that they are still not easily available to those who would have no chance of starting a business without special help.

Initiatives

A recent study by the Calouste Gulbenkian Foundation, the charitable trust, argued: "Despite the great and rapid expansion of small firms' support measures over the past five years . . . most measures are fragmented, inaccessible, complicated, concentrated on growth-oriented enterprises, and in many cases do little more than assist small enterprises which would be viable without special government assistance."

Mr Barry Baldwin of the Union of Independent Companies adds: "I can't see a coherent policy. All I see is a number of initiatives coming to the surface with no link between them." The general verdict seems to be: much progress, but much room for improvement.



Leyland Trucks, currently the subject of a consortium bid by Lancashire Enterprises

Local Enterprise Boards

Funding areas in decline

THE CURTAIN has fallen on the metropolitan counties. The battle over their demise was hard and bitter, but now their powers fall into the hands of new masters—the district councils and residuary bodies charged with dismantling or giving new shape to old civic and quasi regional functions.

The political animus over abolition stemmed from the fact that the metropolitan counties were traditional fiefdoms of the Labour opposition, and their initiatives, ranging from London's radicalism to the staider machine of Greater Mhancester, could publicly be characterised as attempts to govern against the grain of national government.

That battle is over. Now comes the question of what happens to some of the institutions which the opposition administrations of the industrial heartlands and great metropolises created.

The enterprise boards were born over the last four or five years as a Labour initiative to use public sector funds for a private sector type of development and venture capital operation in areas of declining industry.

The main bone of contention has been what is called section 137 money, the right of metropolitan counties to spend up to a product of a 2p rate of discretionary purposes under section 137 of the Local Government Act.

In practice, this may mean, as at Greater Manchester Economic Development Corporation, that the district councils will still have their 2p to spend but the metropolitan counties' former 2p will go with abolition. The boards in this position will have to raise the ratio of private funds they attract.

The government line is that this was not part of a conscious cutback. The abolition White Paper always undertook to reconsider the raising of the 2p, but until the publication of the Widdicombe report (probably in May) there will be no rethink.

On the one hand this leaves areas of uncertainty for the boards. On the other, most boards have provided loan funding against the day of abolition—with the notable exception of the Greater London Enterprise Board.

Consortium bid

Not all boards are affected by the new arrangements. Lancashire Enterprises Ltd—which has just entered a consortium bid for Leyland trucks and parts—is, for example, attached to a shire county, so has no changes to ring. Others with constitutions similar to the early Lancashire and the West Midlands Enterprise Board models, are staying.

The West Midlands Enterprise Board, perhaps the classic model, was set up in 1982 by the county council, which was concerned at the rate of closures in traditional industries like engineering and motors.

Most of its lending is done in the form of development capital, to the tune of 80 per cent or 90 per cent. It reckons to have been associated with the creation of some 2,800 jobs, and has invested in nearly 30 companies, including those deals close to completion.

Its brief has generally confined itself to medium-sized companies, employing upwards of 50 people, which it feels creates jobs on a sensible time scale. It avoids soft loans and grants as a means of propping up enterprises and eschews being seen as anything other than a vehicle for commercial decisions.

Like other enterprise boards, it is legally separate from the metropolitan county (as was) or the district councils (in the future), and has received the consents for the continued use of the section 137 money it has collected from the Department of the Environment regardless of the changeover.

In common with other boards, it has set up a spread of activities over and above seeding investment. For example, it has just started up a joint technology transfer subsidiary with Aston University: the West Midlands Clothing Resource Centre—a computer-aided design service for clothing companies; and a training company for the underprivileged. It is also in the process of setting up an economic planning function.

The West Midlands is typical of the core functions of enterprise boards, but all of them have different and strongly regional characteristics. Greater Manchester Economic Development Corporation (GMEDC) is a rather different animal—a development corporation, set up in 1979 before the enterprise agency scene got going.

It describes itself as neither an enterprise agency nor an enterprise board, though it has an enterprise board subsidiary, Worknorth Ltd, involved in funding to between £10,000 and £100,000. More broadly, it involves itself with heavy regional promotional activity, with overseas missions and with property (as does London) for the provision of office and factory space.

The fundamental enterprise board proposition is the same. It acts as a catalyst, whether it be through guarantees, interest rate subsidies, participation in syndicated loans or other funding mechanisms. It acts as a consultancy with deeper local knowledge than the bulk of investment institutions.

Its concern with employment has a much stronger sense of local commitment; and it is not so conventionally hamstrung as most institutions as to the kind of situation it goes into—from management buyouts to co-operatives.

In most cases, the boards claim to have created of the order of 3,000 jobs at a cost of between £3,500 and £7,000 in their span of life—in other words, relatively cheaply, though the figures can be deceptive because of the effects of other financial components.

Yet, they have attracted the suspicion of the present government. On one level, they are seen as a useful vehicle through which local authorities can undertake a development role.

At the same time, they are seen as potentially and, in some cases, actually in conflict with national development schemes and objectives rather than complementary. Finally, there is clear government concern, particularly in the case of GLEB, that section 137 money has been used for political propaganda.

Unlike the other enterprise boards, GLEB has had refused its consents from the Department of Environment for section 137 money.

GLEB is now faced with the possibility of the sale of its property assets in order to keep going, with the possibility of its assets reverting to the ratepayer through the residuary body, and effectively with the possibility of liquidation—though this is an unlikely eventuality.

Nor does GLEB know which boroughs will take up membership in it. So far 13 local authorities have pledged support.

GLEB places the cost per job created at something between £5,000 and £6,000, considerably lower than regional development aid's cost per job in the assisted regions.

Whatever its future, on the best estimates, it now sees its funds as much more limited for the next two years and its reliance on private sector matching funds moving from a current 1:1 ratio to one of 1:3 or 1:4.

In contrast, West Yorkshire Enterprise Board made itself legally free-standing from a residuary body two years ago in anticipation of the effects of legislation.

It has taken in an extra £20m of capital and negotiated loans of a further £10m to £15m, and will now, in a sense, act as banker to joint companies formed with its district councils, but over an expanded region that extends to the rest of Yorkshire and Humberside.

None of the enterprise boards sees its role as more than that of a catalyst to try to stimulate ideas and investment in the ailing industrial heartlands, but in a curious way—and private sector venture capital organisations would agree—the employment-centred attitudes and regional knowledge of the enterprise boards have made them more likely to take commercial risks.

Not all those risks have been justified, nor has there been time for their assisted companies to fully establish themselves or fail. But within their defined role, they fill a vacuum in the development capital market.

Chris Mansell

Development Agencies

Here's a chance to be your own boss

JUST BEFORE the National Coal Board closed the Garw colliery, near Bridgend in South Wales, at the end of last year the Ogwr Partnership Trust started distributing handbills and posters alerting the 400 miners who were to lose their jobs of the possibilities of setting up on their own account.

Eventually, some 50 to 60 inquiries were received and half-a-dozen one-man businesses have already got off the ground. One man wanted to start a mobile fish-and-chip shop, a local "delicacy" in South Wales. Another put forward a proposal to set up as a jobbing builder and other suggestions were to establish signwriting and auto-electrical businesses.

The Ogwr Trust is a partnership between the local authorities in the area, private enterprise (which has put up £6,000 already), NCP Enterprises and the Welsh Development Agency. Interestingly, its chairman, Mr Jonathan Traub, is an American who runs Align-Rite, a company supplying masks for micro chips.

The Partnership is also a good example of the way the Welsh Development Agency is involving itself in the creation of small businesses in Wales, a way that is being mirrored in Scotland by the Scottish Development Agency.

The agency's involvement in the Trust is not large: just £10,000 a year. But Mr Corris Thomas, director of its business development unit, says: "The aim is to find organisations to support which will produce good results. We do not throw money away after projects. We evaluate each one carefully before deciding whether to back it."

The strategy of the agency is to increase the birth rate of small companies and to increase the life-expectancy of those that come into being. This it does not just by increasing the awareness among individuals of the possibility of setting up on their own but also in a range of counselling and support services.

Unlike the Scots, it has been claimed that the Welsh lack the spirit of entrepreneurship, preferring to tread the white-collar path into the professions, especially teaching, rather than delving into business.

Whatever truth there may been in this in the past (there was, in fact, a lot of truth in it) signs are emerging of a nascent entrepreneurship, especially at school and college, where the agency has been particularly active.

A graduate enterprise scheme, sponsored by Mid Wales Development, the Manpower Services Commission and St David's University College, Lampeter, in addition to the WDA, discovered 100 final-year students interested in taking a weekend business course at St David's at Christmas 1984, of whom 60 went on to a longer course at Easter. Another dozen took the opportunity of a three-month residential course sponsored by MSC.

Priority areas

"The option of working for themselves has never previously been put to students in Wales," Mr Thomas says. "We are changing that. In 1984-85 we launched a Young Initiative Programme as a pilot scheme in 32 schools to tell sixth-formers what business was about.

"This year we are in 130 of the 200 schools in the Principality taking sixth-form studies and simply could not cope, physically, with handling any more. We are putting a business option before about 6,000 young people."

At the Scottish Development Agency, Miss Fiona Ballantyne, head of small business services, says the "market has changed over the last few years. Ten years ago we were the only people helping small businesses.

"Now there are a range of others, such as the enterprise trusts and so we shall move closer to existing businesses and concentrate on our chosen priority areas, such as food, textiles, services and high technology, where we have a big lead over other parts of Britain.

"Our approach is to provide marketing, accountancy and other support services which the small firm cannot do out of its own resources. We look for a long-term relationship and hope to sort out things before they become problems."

Wales and Scotland have decentralised their counselling, marketing and technical services, which are intended to help emergent businesses over the difficult initial years.

Research has shown that, in Wales, only four in ten new ventures survive the first two years. A lack of training in basic business skills leads to the downfall of many concerns.

To help them through the difficult days the WDA launched a Be Your Own Boss course (soon to be called a Self-Employment Course). Individuals thinking of setting up, or who have recently come into existence, can spend up to nine days on a course in which they get guidance from counsellors all of whom have been in the private sector.

"This is the vital ingredient," Mr Thomas says. People on these courses know they are speaking to managers who have been in business, practical people, not teachers.

"Demand for these courses is rising. They are a very cost-effective way of spending public money.

"In addition, next year (the agency's financial year 1986-87) we shall be running at least 60 marketing workshops. There is tremendous demand for marketing advice."

Scottish experience runs parallel with this. The business counselling service covers general management as well as finance and investment and Better Business Services are an opportunity, according to the SDA, "to gain really significant business benefits at minimum cost."

Scotland is particularly strong in its support for export marketing advice and overseas promotions. The SDA organises a programme of exhibitions, within and without the UK, to allow small firms to research, test and sell into wider markets. In all, it backs about 30 a year.

The strength of the SDA has always been in the US but it does not neglect Japan, that other export honeypot.

An in-store exhibition at Mitsukoshi, in Tokyo, at the end of last year saw £1.6m of business done for Scottish concerns. The SDA tries to tackle two or three such in-store promotions a year.

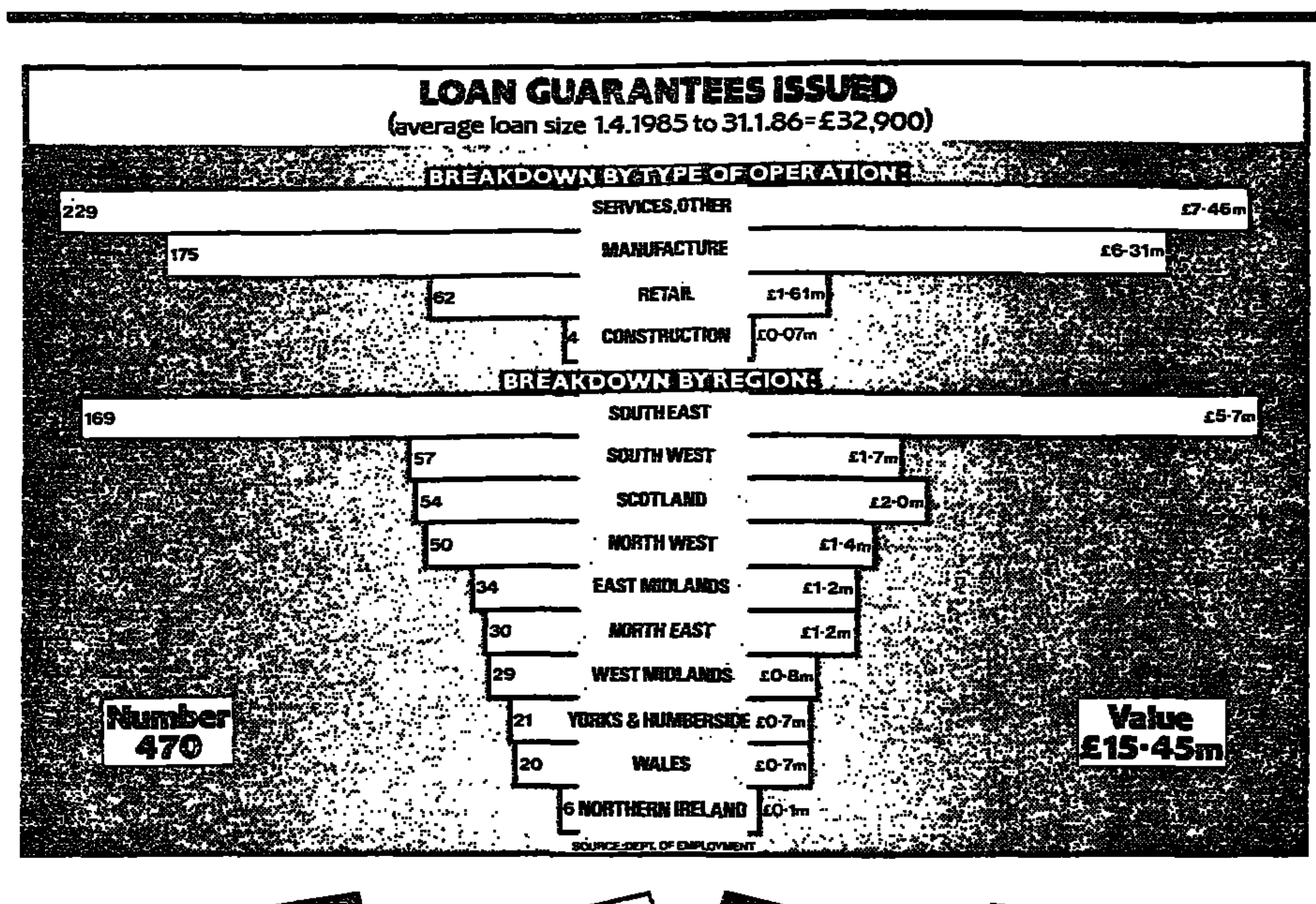
"We try and ensure that any company going to an overseas exhibition is prepared for it," Miss Ballantyne says. "We ask them if their home base is satisfactory and if they are ready to sell abroad."

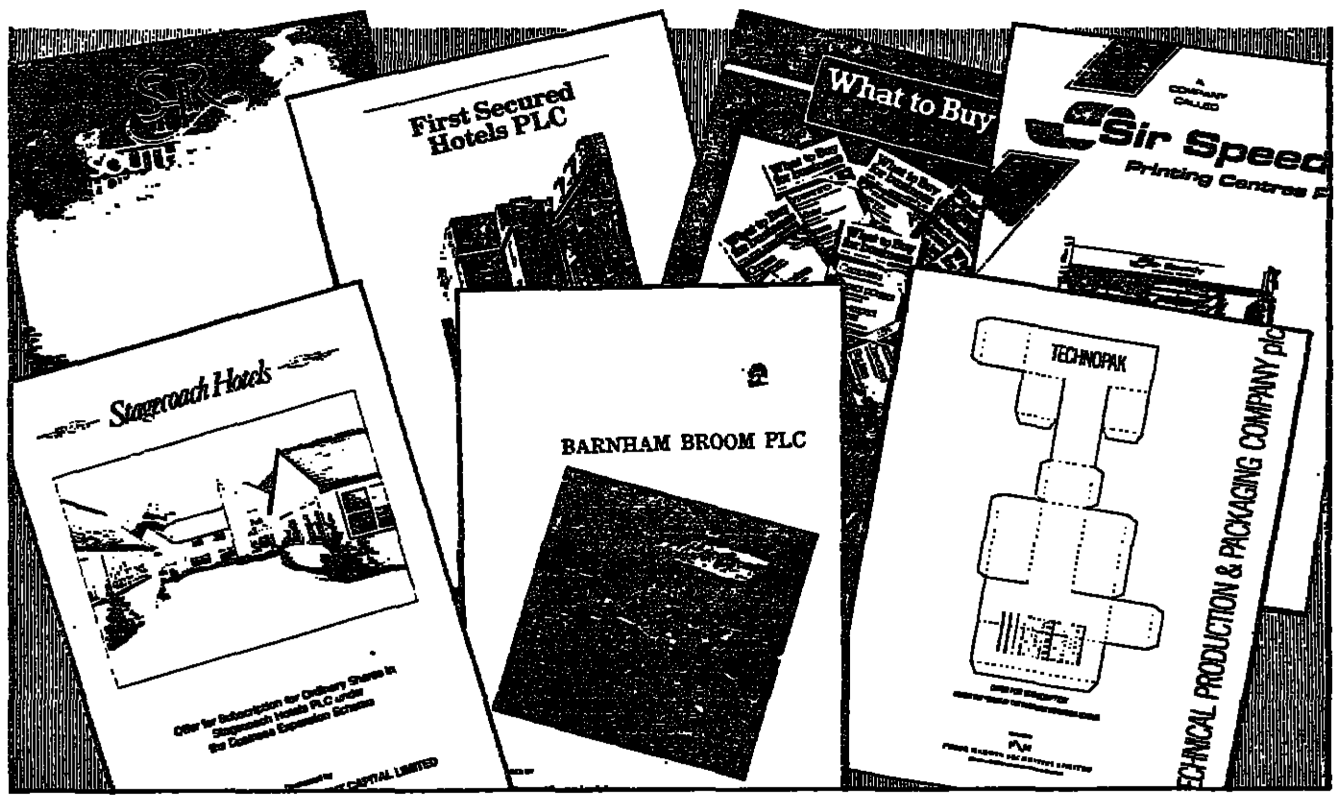
Wales is also seeking to bcome more active in this sector. "We have taken a leaf out of the Scots' book," Mr Thomas says frankly, "and are starting to take people to overseas exhibitions." Last month it organised a visit for half a dozen exhibitors to the New York Pret, the clothes show, and in February it masterminded the travel for half a dozen to the New York Gift Show, a show at which the Scots were also represented.

"This is an area we shall be developing," according to Mr Thomas. "We are looking at Japan and some other markets to see how we might help. But these moves are still very much at an embryonic stage."

Anthony Moreton

Small Businesses 4





BES: the choice has never been so wide.

Loan Guarantee Scheme

A new lease of life

FEARS that Britain's ailing Loan Guarantee Scheme (LGS) was due for a *coup-de-grace* were *finally dispelled by last* month's Budget.

The Government's decision to make the scheme cheaper for borrowers and to put it on to a more stable footing restores the LGS as a centrepiece of its small business strategy. It also underlines just how much importance the Government attaches to small businesses as generators of new jobs in the run-up to a general election in which unemployment will be an important issue.

Under the Budget changes, the LGS which was due to run out on April 5, has been given a three-year life, so ending the uncertainty which has contributed to its decline in popularity. The premium paid for the government guarantee was halved from 5 per cent to 2.5 per cent. If the premium is spread over the whole loan, including the non-guaranteed portion, the net extra cost comes out at 1.75 per cent.

Supporters argue that the scheme is a valuable way of channelling finance to small businesses which would otherwise have been unable to borrow on normal commercial terms. Critics maintain that the scheme can be counter-productive, because the premium attached to LGS loans can impose serious cash-flow strains on young businesses during their most vulnerable period of development, though the Budget did something to improve that position.

The Government estimates that 40 per cent of the companies which used the LGS in the year to May 1982 had foundered by last summer, three years later — a significantly higher casualty rate than the overall national average of one-in-three in the first three years.

Mr David Trippier, the Small *Firms' Minister*, told the Commons last July: "Available figures suggest some reduction in failure rates, but this cannot yet be reliably quantified." There has been no evidence since then to change that view.

The high casualty rate has meant that the scheme has failed dramatically to live up to the Treasury's original intention — always viewed with much scepticism by the banks — that the LGS premium should fully cover losses. Even so, a Department of Employment estimate, that jobs supported or created by the LGS cost the taxpayer £700 each, makes it look cheap against the £5,000 to £7,000 per head annual cost of unemployment benefit.

Introduced in a blaze of optimism in June 1981, the LGS had helped nearly 17,000 businesses by the end of January this year. The Government issued guarantees worth just short of £554m over the same period, a rough average of £33,000 per business.

Claims made by participating banks had reached £119m by the end of January. That figure goes down to £91m if one takes account of premium income and of sums recovered from failed businesses.

Successive—and increasingly tough—changes in lending conditions have strangled demand for the *LGS* so severely that, by the end of last year, banks considered it dead already. Until last month's Budget, they were unwilling to waste time marketing a scheme that looked as if it would be quietly shelved at the next government review. Originally scheduled for review in December, it was last autumn given a new lease of life until April, the first hint that a more dramatic revival might be on the way.

In the year to last April, the Government issued just over 2,000 guarantees, a fraction of the more than 6,000 loans made when the LGS was at its peak in 1982-83. And in the 10 months to January, demand plummetted still further to a mere 470 loans, representing a Government exposure of £15m.

Initially, the LGS offered a government guarantee for 80 per cent of approved bank loans up to £75,000, in exchange for a 3 per cent premium on the guaranteed portion, paid over the bank's own interest rate margin. In an attempt to stem mounting losses, the Government cut the guarantee, in June 1984, to 70 per cent and raised the premium to 5 per cent.

Failure rate

This had the twin effect of making the LGS less attractive to banks, which suddenly found they had to shoulder half as much again of the risk, and almost prohibitively costly to small businesses, which now found that they were paying on average 6 percentage points over base rate for the privilege of a 70 per cent guarantee.

But the failure rate showed no signs of diminishing towards the end of 1984, so the conditions were further tightened. Applicants were asked to produce a business plan, drawn up along Department of Trade and Industry guidelines, to include details of management, products, markets and history of the business. In addition, full management accounts had now to be shown to the bank every three months.

These changes were broadly welcomed, since poor financial planning and inadequate monitoring, by banks and businesses alike, had been highlighted in an earlier report by accountants Robson Rhodes as important keys to the scheme's failure rate.

Less welcome, however, was the new requirement that applicants had, wherever possible, to produce personal security; an ambiguous rule which some observers felt cut right across the scheme's original role—admittedly unclear—of helping small businesses which lacked the assets to get fully commercial bank backing.

Another, entirely unexpected complication came with the arrival last year of the final phase of the Consumer Credit Act, which required banks to divulge an Annual Percentage Rate (APR) to private borrowers for loans of less than £15,000. That includes partnerships, unincorporated businesses and sole traders, which until then were believed to have made up around 10 per cent of LGS borrowers.

Calculating an APR—capital plus interest repayment—on a straight bank loan is difficult enough, but hopelessly complicated when it comes to an LGS account with its premium element. The result was that most of the 30 or so LGS participating banks refused from that moment on to open LGS loans for unincorporated businesses.

Last month's changes were widely welcomed by small businessmen for making the LGS more affordable to borrowers and thereby improving their chances of survival. The Government meanwhile is hoping that the changes will create a pick up in demand for *expansion finance from small*, job-creating businesses.

William Dawkins

Business Expansion Scheme

Refinements boost usefulness

THE BUSINESS Expansion *Scheme has established itself* during its short three-year history as one of the fastest growing sources of small company finance in Britain.

Never before have individuals been offered such generous tax incentives for investment in unquoted companies. Despite some worrying flaws, the scheme has gone a long way towards fulfilling its original intention of opening up a source of equity for businesses which would not otherwise have been able to raise finance on normal commercial terms.

According to the latest Treasury estimates, BES investment climbed from £105m in 1983-84, the scheme's first year, to £136m in the following 12 months. More than 1,400 small businesses received BES finance in the first two years, and it looks as if the tax period that ends on April 5 will show another big rise.

This year, however, brings the BES to an important watershed in its development. Far *reaching changes announced in* the Budget make the scheme even more attractive to investors, while making it extremely difficult for the heavily asset-backed ventures which have dogged the BES in recent years to raise finance under the scheme. The Budget also made the BES, originally due to run out in 1987, permanent.

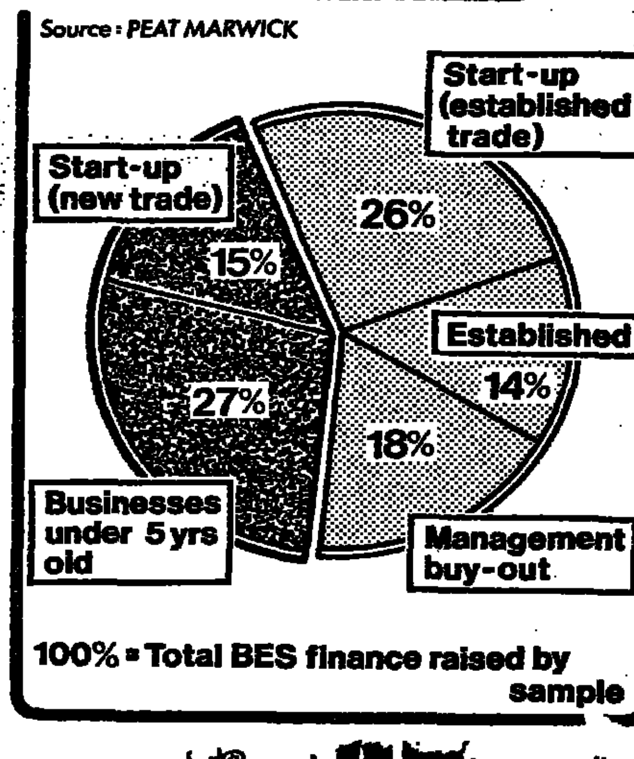
Until last month, the main attraction of the BES to investors was that they could offset the cost of buying unquoted *shares against their top marginal* tax rates—which theoretically also made it possible for businesses to raise equity on better terms. Now they can also sell BES shares free of capital gains tax, a ruling designed partly as a carrot but also as an *encouragement for* people to invest in riskier businesses with high performance potential.

Banned categories

Meanwhile, the door has been shut firmly against asset-backed ventures with the Budget's ruling that businesses with more than half of their net assets in land or buildings will not quality for BES relief, unless they are raising less than £50,000 in any one tax year. Also banned are companies that hold goods of a kind normally collected for investment *like* fine wines and antiques.

This boost to the BES coincided with the publication of a long-awaited report by accountants Peat Marwick, which gave the most authoritative evidence to date of the extent to which the *scheme had provided* finance for companies that would never have attracted investors from other sources.

According to the report, more than 70 per cent of the BES money invested in 1983-84 (barring farming ventures, which were later thrown out of the BES) could not have been raised as equity without the scheme. More than a third of the 102 companies surveyed by Peat Marwick raised less than £50,000 each under the BES. Even though they accounted for just three per cent of the total raised by the sample, they show that the BES is doing something to help companies in the so-called equity gap where City institutions find it uneconomic to invest.



The BES comes out of the report as a substantial job creator. The 715 companies which raised finance in 1983-84 had produced 4,000 additional jobs and a combined £100m increase in turnover a year later. However, the report also warned that an increasing trend towards the secure asset-backed schemes since then might draw money away from the ventures which the BES was designed to support.

For companies, the most frequently cited advantages of *raising finance under the BES* include the "breathing space" from pressure from outside investors accorded to the fact that they cannot sell shares for five years on pain of losing tax relief, and the absence of annual interest and capital repayments.

The most popular method of raising BES cash is through a direct issue of shares to the public, which can be done either through a private placing arranged by a stockbroker through publishing a public prospectus, or through an approach to investors without any professional help. The latter is the cheapest route, with the most expensive being a prospectus issue, where solicitors, accountants, printing and other costs are unlikely to come to less than £50,000.

The other route is to join a fund, which invests in a spread of companies and which tend to offer some kind of management advice. Fund managers will also take options on the shares, typically ranging from 5 per cent to 10 per cent of the equity capital, according to Peat Marwick.

One advantage of raising cash through a fund is that it is not necessary to issue an expensive prospectus for public consumption, though fund managers will need detailed accountants' reports. The management advice which many of them claim to offer does come at a price, and may not be welcome for businesses with fiercely independent management styles. But in practice, two *thirds of the ventures* surveyed by Peat Marwick welcomed having non-executive directors on their boards.

Funds have, however, increasingly been pushed into the background by the growing popularity of the more glamorous direct issues. According to Venture Economics, the US-owned research consultancy, BES funds raised £28.4m in the last calendar year, down sharply from £37.5m in 1984; while direct issues (which are *less easy to measure precisely*) have roared ahead.

Timing is all important when seeking BES finance. Investors tend to wait until their tax positions are clear towards the end of the tax season before deciding how much to subscribe to the scheme, though last month's CGT concessions might make that less important.

Many companies have grown wise to this, and accordingly waited until the last minute before issuing prospectuses, because they know it is harder to tap the BES early in the tax year. At the time of writing, around 50 direct issue companies were looking for more than £100m from BES investors before the end of the tax period. That is almost as much as was raised in the whole of last year and has given rise to fears that many of those issues will fail to attract their minimum targets by Saturday. At least half a dozen BES issues have been withdrawn since the turn of the year because they failed to spark enough interest.

Tax relief

Timing is trickier still for funds. Much to BES management groups' irritation, funds cannot offer full tax relief to investors unless they have placed all of their money with companies by April 5. Direct issues, by contrast, offer instant tax relief—or in the case of start-ups, four months after trading begins.

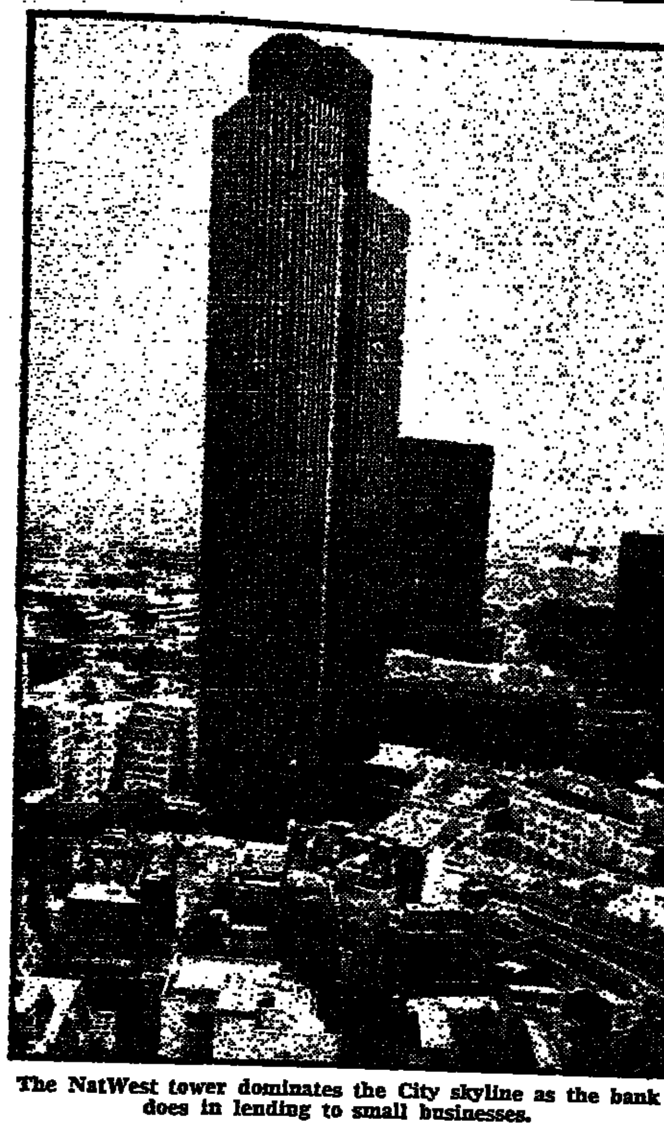
Like direct issues, funds must compete in the year-end scramble for investors' money, but are faced with the discomfort of having to find a home for the cash in a very short period. It is no accident that 70 per cent of the total placed by BES funds in 1984-85 was invested in the last quarter of the tax year, according to the BES Magazine.

The rush puts small business in a position to drive a hard bargain with fund managers desperate to invest, though it also means that funds are in a poor state to make considered investment decisions.

The BES is far less restrictive than its predecessor, the Business Start-Up Scheme; but even so it has been criticised by small business lobby groups for having unnecessarily tough rules. For instance, employees, paid directors and associates are not allowed to claim BES relief for investments in their own companies, and that also includes close relatives, except for directors' brothers and sisters. This condition is unfair, argue some lobbyists, because people in those categories are just the ones to know enough about the venture to make properly informed investment decisions.

Another much criticised restriction prevented BES companies from setting up foreign subsidiaries, until that rule was scrapped in last month's Budget. There is also a ban on flotations on the full stock market or Unlisted Securities Market within three years of issuing shares. Flotations are permitted, however, on the over-the-counter market, an increasingly popular telephone share dealing service outside the Stock Exchange's official control.

William Dawkins



The NatWest tower dominates the City skyline as the bank does in lending to small businesses.

Clearing banks

The manager still matters

THE BATTLE for the small business customer has never been keener among Britain's banks. As NatWest's Andrew Lord puts it: "Small business accounts for an enormous amount of our business portfolio. We are lending £6bn to businesses with turnover of less than £1m a year."

He recently succeeded Mr Noel Dearing as head of NatWest's trend-setting small business section. The importance of this growing market is summed up by other numbers: "Our Business Development Loan scheme began in 1971. On February make-up day this year we had £1.42bn out under it. We made 3,721 loans in February alone, worth £49m. The monthly average is 3,500 loans worth £50m."

NatWest has long been the leader in the small business market but is worried enough about the competition to have started an extensive reorganisation of its branch structure last year that will take until 1988 to complete.

There are similarities between the new structure and that already adopted by arch-rivals Barclays. Both seem to be establishing a hierarchy of branches and simplifying chains of command. Expertise is being concentrated at designated branches, where staff will be specially trained to deal with certain types of customers.

Small business people comprise one critically important grouping. At Barclays, for example, small business customers are being encouraged into branches where the manager or senior staff understand their needs, problems and the best way of ensuring that the relationship works well for both parties.

This is an important development in banking's market place. Small businesses tend to have common problems but the days are probably long gone when every bank manager, whatever the size of the branch, was as capable as any contemporary in coping with them—if, indeed, they ever were.

Most of the banks now have centralised small business units responsible for developing policy and inventing the sorts of financial packages small businesses need. NatWest's contribution in general—and Mr Dearing's in particular — received due recognition when Mr Dearing, now manager of one of the bank's bigger branches, was awarded an OBE in the New Year's Honours.

Having their central units, however, does not mean that the banks are going to be universally and equally competent where it matters to the individual small business—at point of contact with the bank manager.

There are thousands of bank managers. Managerial, entrepreneurial and social skills vary. Some are high flyers passing through. Some are there for life. Some make better judgements than others.

The variations are such that if a businessman falls out with his bank manager he does not necessarily need to change banks—a change of branch alone has transformed the situation in many cases.

The managerial superstructure of the whole bank will determine whether the individual manager takes much notice of the London-based Small Business Unit or not. Moreover, regional management may well dictate the rigidity of the parameters that determine the sort of risk the bank will take.

The trend at Barclays and NatWest is to put some small business expertise nearer the marketplace in a specialised branch, where the decision-maker is steeped in the practical realities of small business life and has a fund of generalised experience to draw on.

The specialist will certainly understand the significance of management accounts. This is comparatively new among bank managers, who were always educated in the tradition that the bank statement—a mirror of a business's cash book accounts—reveals all.

But accounts that fail to match sales to the cost of achieving them never reveal true profit or loss. The business and the bank manager may only discover the truth when the annual audited accounts are produced—if it survives that long. Businesses go bust because they have not got the cash to pay the bills from last month or the one before.

Secondment of young bank managers to enterprise agencies has often proved the eye-opener here, as the secondees have seen at first hand how most small businesses control, or fail to control their businesses. Lack of control is more often the rule.

Midland Bank recently studied management deficiencies in small and medium-sized businesses and found 88 per cent poor on costing systems and 76 per cent poor on management accounts. Financial forecasts, time management, debtor/creditor analysis, stock control were deficient in more than 60 per cent of cases.

This is not only revealing about small businesses, but also about the bank's relationships with them. Despite lending most of the working capital that the businesses were using, the bank clearly did not require that basic practices of managerial control should be followed. Over the years Midland has probably been no worse or better than any competitor in this respect.

Market pressures apart, prudence alone is forcing change on the banks. Throughout the 1980s they have competed with each other vigorously for small business custom.

Competition has meant that if one has set up a specialised unit to develop financial packages for the franchising industry, the others have followed. The example is most appropriate now, for franchising is mushrooming and the banks are in cut-throat competition for business, especially since larger sums are involved, with quicker returns. Most aggression is coming from the Royal Bank of Scotland, which is rattling the market leaders, NatWest and Barclays.

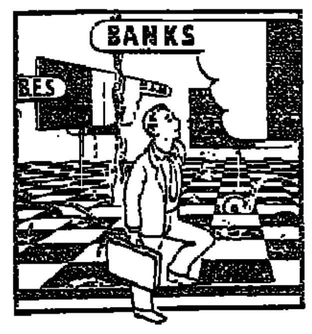
Other examples abound, as the banks' records in the 1980s show: if one bank steals a march by offering special deals for Cosira's clients, others soon come up with their variation. What is on the market seems to be a sometimes bewildering array of "me too" financial packages.

They appear to be leap-frogging each other in the marketplace, so that the trend is of ever-more money being available over longer periods.

In this climate the small business that has not got its management accounts and financial controls sorted out will not get big money out of the banks. Even if it has, it should look carefully at how it picks the right deal and negotiates it. The accountant's role as an independent adviser is worth developing, something Lloyds Bank has encouraged through jointly sponsoring seminars with the Institute of Chartered Accountants.

Despite all this, the personal relationship between bank manager and customer still matters, however "scientific" the financial packages and controls become. Mr Andrew Lord sums up why: "Lending is a matter of judgment. We can't avoid that. The more hard information we have the better, but the best bank to have is the one that knows you, knows your track record and understands what you are trying to do."

Ian Hamilton Fazey



PRIVATE SECTOR FINANCE

Action in the 1980s

Lloyds

1981—Set up small business bureau; founded Pegasus Holdings to provide equity finance.

1982—£2m venture capital fund with Birmingham City Council to encourage high technology; £5m made available to regenerate inner cities in South Wales; launched new technology appraisal scheme with Cranfield Institute of Technology; appointed franchise manager.

1984—Introduced business loans scheme providing finance for up to 20 years; formed small business unit.

Midland

1981—Doubled turnover ceiling on special export scheme to £500,000; joined European Investment Bank (EIB) scheme on low-cost credit for small companies.

1982—Established electronics industry section; appointed manager for inner-city business development; launched Smaller Companies Fund (a unit trust) to invest in small business.

1984 — Started business advisory service for growing businesses turning over £200,000-plus; £1m loan fund for Westgate, Newcastle-upon-Tyne; established franchise unit; doubled turnover ceiling on special export scheme to £1m.

1985 — Free business banking and counselling for people on enterprise allowance scheme; simple but comprehensive small business loan and business development loan schemes started; Council for Small Business in Rural Areas (Cosira) clients offered concessionary interest rates and arrangement fees; secondees to enterprise agencies and similar bodies put up to 28.

NatWest

1981—Doubled capital loans ceiling to £100,000, while that for business development loans (established 1971) rose 250 per cent to £250,000; launched Small Business Digest; set up special franchising service; seconded six managers to enterprise agencies, increasing numbers to 20 within three months.

1982—Set up small business section; appointed three business development officers for inner cities; doubled maximum maturity of business development loans to 20 years; started special lending scheme with Cosira for country-based clients.

1983—Joined European Coal and Steel Community (ECSC) loan scheme for closure areas; launched technical advisory point scheme; joined EIB scheme on low-cost credit for small companies in assisted areas.

1984—Promoted first European bankers' small business seminar; sponsored small business chair at Cranfield Institute of Technology which led to first graduate enterprise programme in Britain; introduced capital repayment holidays on secured business development loans; agreed to underwrite £300,000 expenses of 1986 International Small Business Congress in London.

1985 — Relaunched capital loan scheme providing finance up to £200,000.

Barclays

1981—Established franchise unit, put up £1m to develop incubator block in Warwick Science Park; introduced job creation loan scheme for coal and steel closure areas.

1982—Appointed manager for inner city areas; started smaller exports scheme; incorporated high technology unit into corporate division team.

1983—Doubled ceiling on job creation loans to £100,000; introduced basis loans to provide development finance for growth; increased staff seconded to enterprise agencies to 20; joined EIB loan scheme.

1984—Joint scheme with Cosira on management guidance and finance for rural clients; put £240,000 into Open University start-up home-study course.

Williams and Glyn's

1981—Quintupled ceiling on business borrowing plan to £250,000 and doubled maximum maturity to 10 years.

1984—Started to participate in EIB scheme; expanded information service to offer free publications on wide range of subjects for small businesses; introduced franchise plan.

1985—Fully merged into Royal Bank of Scotland.

Clydesdale

1981—Set up equity finance company for smaller businesses; provided small business finance for clients of the new Ardrossan Saltcoats Stevenson Enterprise Trust; joined ECSC loan scheme to offer subsidised credit to small businesses in closure areas.

1982—Joined EIB scheme for low-cost credit to small businesses in assisted areas.

1984—Became shareholder in Garnock Valley Development Executive.

Royal Bank of Scotland

1981—Launched smaller exports scheme; introduced microprocessor consultancy service and associated loan scheme for technology applications.

1982—Joined ECSC loan scheme to offer subsidised credit to small business in closure areas.

1983—Introduced option of fixed interest rates on business term loans.

1984—Set up Castleforth Fund Managers with others to provide venture capital; started Technology Fund for Dundee with Scottish Development Agency (SDA).

1985—Appointed franchise manager to head special units in Edinburgh and London.

Bank of Scotland

1981 — Set up Clydebank Enterprise Fund with SDA.

1982—Set up Creative Capital Fund to provide equity finance.

1983 — Raised maximum maturity of term loans to 20 years; started free information service on European and government assistance to industry and tourism; launched Melville Fund through its British Linen Bank subsidiary.

1984 — Joined EIB loan scheme and coal and steel closure areas scheme.

1985 — Launched Scottish Ventures Fund through British Linen Bank; joined with SDA in providing support in Highland Perthshire initiative area.

Ian Hamilton Fazey

Unlisted Securities Market, OTC Market

Stock Exchange plans to bring in OTC as third tier

THE Unlisted Securities Market and the Over-the-Counter Market, the two main sources of equity finance for small companies, may soon come together under the umbrella of the Stock Exchange. Arrangements are still being made, but if the Exchange gets its way, the hitherto wayward OTC may be forced to don more respectable clothing.

This would not mean that the two markets become one. More likely, the OTC would be brought in as a third stock-market tier, and become to the USM what the USM is now to the main market.

As things stand, the USM and the OTC are seen more as unequal alternatives than as successive steps on a ladder leading to a full Stock Exchange quote. The USM has been given the image of small-business man's dream, while the OTC has landed — perhaps unfairly — a more dog-eared reputation.

Since it was started in 1980, the USM has attracted more than 400 companies, making more than 470 entrepreneurs paper millionaires. Meanwhile, the OTC has been expanding more quietly alongside. Fewer millions have been made, as its companies are smaller and tend to remain obscure—attracting little of the publicity that surrounds almost every addition to the USM.

Keeping tabs on the OTC is made difficult by its fragmentation. A rough count shows about 230 companies, compared with about 340 on the USM. In terms of market capitalisation, the difference between the two markets is much larger, with the OTC estimated last year to be worth about £600m against more than £3.5bn for the USM.

These valuations are not particularly useful as they lean heavily on the values of one or two disproportionately large companies. Sinclair Research made up nearly 20 per cent of the whole market, and its fall from grace will have had an upsetting effect on all market statistics.

The OTC is made up of about two dozen licensed dealers who make prices in shares outside the Stock Exchange. It has no specific regulatory framework although a number of groups —working on the assumption that the market retains its independent status—have been queuing to play the part of regulator.

Most of the OTC dealers run their own mini-markets, operating as self-contained entities by playing the part of sponsor, broker and market-maker for the companies in whose shares they deal. An exception is Granville, which buys and sells shares in the companies that it has sponsored on a matched basis, and does not make markets.

Nearly all OTC stocks can be dealt only through one dealer, with spreads between buying and selling prices wide and good for parcels of no more than 100 shares or so. The same problems exist on the USM, although to a much lesser extent. While under the current system there are two jobbers in each stock, this does little to ensure that markets are liquid.

There are three reasons why a company might choose the shambling OTC in preference to the USM. The most important is the difference in entry requirements.

Insist

The USM insists that all companies (except a small handful of start-up ventures with a fully researched project) must have a three-year trading record. Market practice is still more demanding: few sponsors will accept a company that was founded exactly three years ago, and just starting to generate profits that show its mettle.

Age tends to be a more important constraint on prospective USM entrants than size, as companies making profits of less than the minimum £200,000 would be unlikely to find a USM quote appropriate. According to a survey by Spicer and Pegler of 60 OTC companies, half said that they had been prevented by their age from joining the USM, while a further 15 per cent had been too small or for other reasons had not met with Stock Exchange approval.

The OTC is less fussy. Any company that can fill the legal requirements of the Companies Act is eligible, although most licensed dealers would require profits of at least £100,000 and a one-year track record. Some also demand that the issue raises more than £500,000, of which the greater part should go to the company, rather than into the pockets of the founders. Other OTC sponsors take a dim view of any company that is not in a fashionable growth sector. Such a preference must explain why about one in every eight OTC companies is in the leisure sector.

Cost may also steer a company towards the OTC, as it did nearly 20 per cent of those asked by Spicer and Pegler. However, some of these may have ended up disappointed, as the entry costs of the two markets are not as different as usually assumed. According to Peat Marwick, a company raising about £1m through a placing might expect to pay about £90,000 — only £10,000 less than the cost of a similar placing on the USM.

A more powerful reason for going public on the OTC is the Business Expansion Scheme, which has been an important cause of the market's growth over the last few years.

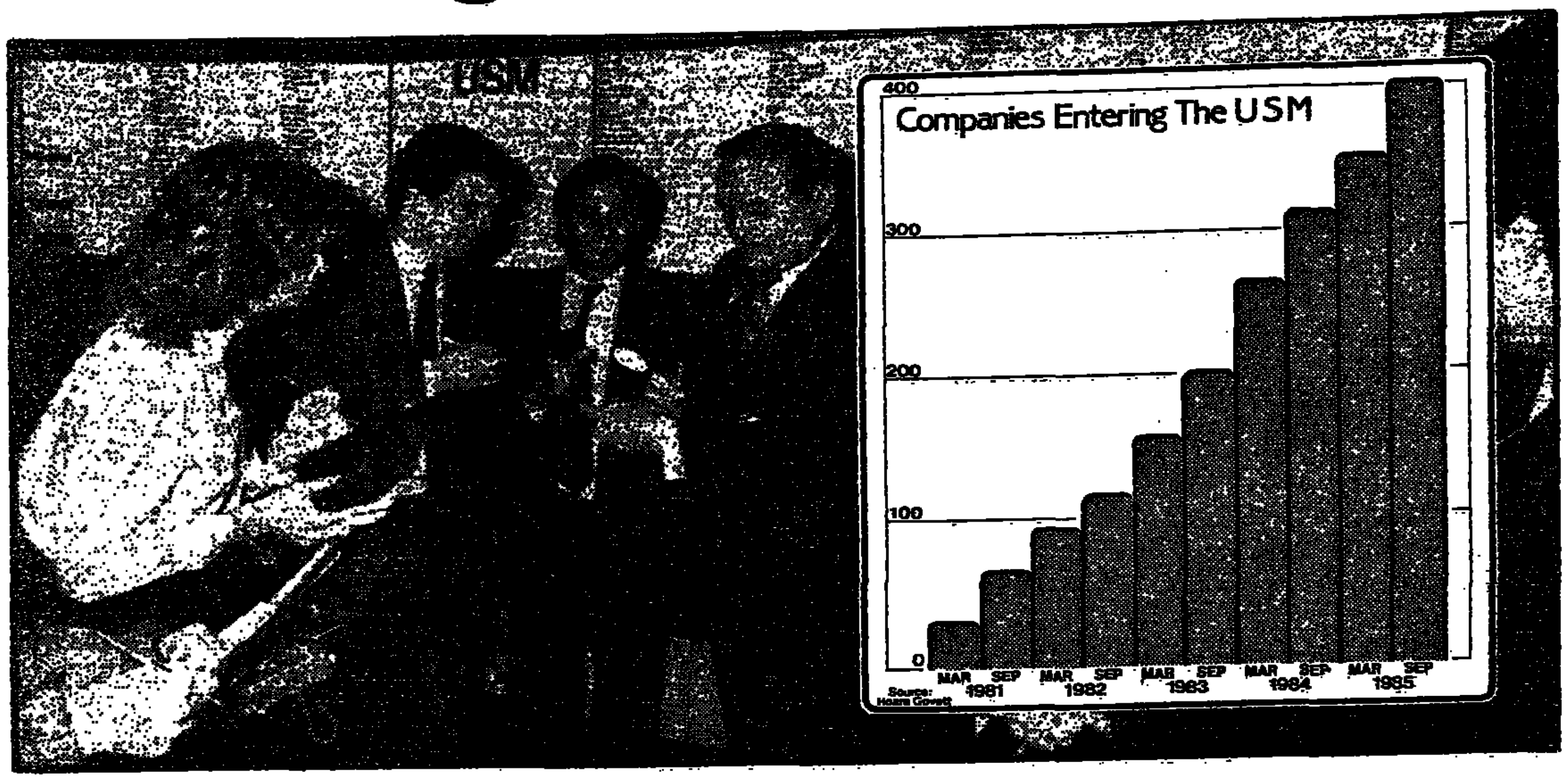
OTC issues qualify for BES treatment where investors can claim relief at their top marginal rate of income tax so long as they hold the shares for five years. Listed investments, including the USM, do not. Nearly half of the OTC new issues have been BES supported since the investment incentive was launched three years ago.

Both markets have been a success for small companies, shown by the growing number of entrants and by their subsequent behaviour. Many companies — especially on the USM — have raised additional money for expansion through rights issues, or used their shares to make acquisitions.

Meanwhile, investors have had a less attractive ride. The USM has badly underperformed the main market, and over the last year rose by about ½ per cent, compared with a rise in the main market of about 15 per cent.

While there is no OTC index, that market performed still worse to judge from a survey by the Economist. During the two years to the middle of 1985 the OTC rose by about 6 per cent, compared with a rise of 16 per cent for the USM, and 38 per cent for the main market.

Lucy Kellaway



Venture Capital

UK at the forefront in Europe

SOURCES OF risk finance for small businesses are growing fast across continental Europe, but the British venture capital industry is going through its first growing pains.

The momentum behind the industry's growth is partly political. European governments increasingly see support for small enterprises as an important contribution to economic welfare. Coupled to that is a general recognition of the speed and flexibility with which small businesses can exploit new technologies in contrast to their often cumbersome and bureaucratic big brothers.

Britain remains at the forefront of European venture capital, accounting for more than half of the Community's Ecu 7bn (£4.3bn) pool of risk finance, according to a survey by the European Venture Capital Association.

Yet the spectacular growth in fundraising for young businesses that was so much in evidence in Britain in recent years is now tailing off. Money is still available for the high risk start-ups popularly associated with venture capital, but an increasing number of groups are now setting their sights at more mature companies, especially at large management buy-outs.

Independent venture capital funds raised £273m in the last calendar year, according to Venture Economics, the US-owned research consultancy. If the £72m pulled in by the Schroder UK Management Buy-Out Fund—an area on the fringes of venture capital as most protagonists know it—is excluded, the total comes down to £201m, a significant decline on the £230m raised by independent funds in 1984.

It is not yet known how much was invested in small enterprises last year, though it is *unlikely to be very far off* the £284m which went to almost 570 British businesses in 1984. What is likely, however, is that a growing proportion of investment will go to refinancing companies which are already part of venture capitalists' portfolios.

Like so many other aspects of British venture capital, this cooling in sentiment reflects a US trend. According to Venture Economics, US risk investment groups raised $2.3bn last year, well down on the $3.2bn they amassed in 1984.

All this follows a period early this decade when venture capital on both sides of the Atlantic grew at a pace which more sober observers knew could never be sustained. Since 1978, for instance, the US pool of risk finance has grown into an ocean, from $2.5bn to $18.5bn. In the UK, the number of specialist venture capital groups has mushroomed over the same period from less than a dozen to around 130.

Hard bargains

One result of this hectic expansion is that a number of groups have more cash than they can easily invest. That means—in theory at any rate—that entrepreneurs with backable propositions should be able to drive harder bargains than ever this year.

Financial institutions, the main providers of venture capital, are meanwhile cautious about subscribing to new funds, unless they are for management buy-outs or more mature companies. A year ago, institutions were still keen to increase their exposure to young companies, but now they want to see how their earlier risk investments are performing before wading deeper into venture capital.

It is revealing that the first British fund to be announced this year, stockbrokers Phillips & Drew's £20m vehicle, specialises in management buy-outs and development capital for companies on the brink of a flotation. This makes a telling contrast with the large funds being raised at the end of 1984 and early last year by groups like Alan Patricof Associates and Fleming Ventures, with a bias towards high technology enterprises in their early stages of development.

Private venture capital investors are being equally cautious. British risk investment has received an important boost from the tax reliefs available to individuals under the Business Expansion Scheme so it *is not surprising* that the scheme's health is linked with that of the industry as a whole.

Last year, 19 BES funds pulled in £29.4m, well down on the £37.5m raised by 14 funds in 1984. One reason for the decline is that investors' interest is swinging towards direct BES issues, which tend to include a higher proportion of seemingly safe asset-backed businesses.

The funds have lost out because they have tended to specialise in riskier, more genuinely venture capital type businesses.

UK venture capitalists' image has not been helped by the fact that after the initial surge of enthusiasm for this new and exciting investment discipline in the early 1980s, the industry has so far failed to produce any spectacular successes.

There has been a sprinkling of failures, but not as many as some forecasters had feared. Generous profits have been made from stock market flotations, helped by the opening in 1980 of the Unlisted Securities Market, which last year included 12 venture-backed companies among its 97 new entrants. Yet successes on the scale of Wang Laboratories, Apple Computer or Compaq in the US have so far eluded British venture capital.

Fund managers, meanwhile, are complaining of a dire shortage of good quality start-ups, with sometimes fierce bidding for the rare ventures that can scrape together an experienced management team. The shortage of deals could be one reason why the present avalanche of management buy-outs is being welcomed with such enthusiasm.

The list of specialist funds to have emerged in the past six months offering cash for managers with an eye to independence seems endless. Electra Investment Trust and Candover Investments set the ball rolling with their announcement of a £250m buy-out pool, followed by £100m from Citicorp, £72m from Schroder, £10m from Granville, the small investment bank, and £20m from FandC ventures.

Accountants Peat Marwick estimate that £930m was spent on management buy-outs last year, more than in the previous five years together, though the number of deals actually went down from 160 in 1984 to 150 in 1985.

The growth comes from an increasing tendency among large corporations to discard peripheral businesses so that they can concentrate on core activities. The traditional source of buy-outs—small family companies—is roughly static.

Technique

This year, it looks as if a new generation of buy-outs will be a by-product of the present spate of large mergers, which are bound to leave new owners with unwanted subsidiaries.

The management buy-out and the sophisticated financing that goes with it is just one of the many US techniques to have been imported by British venture capitalists. The best known and perhaps most over-worn is so-called "hands on" management, which means that fund managers attempt to add value to their investments by adding general investment advice.

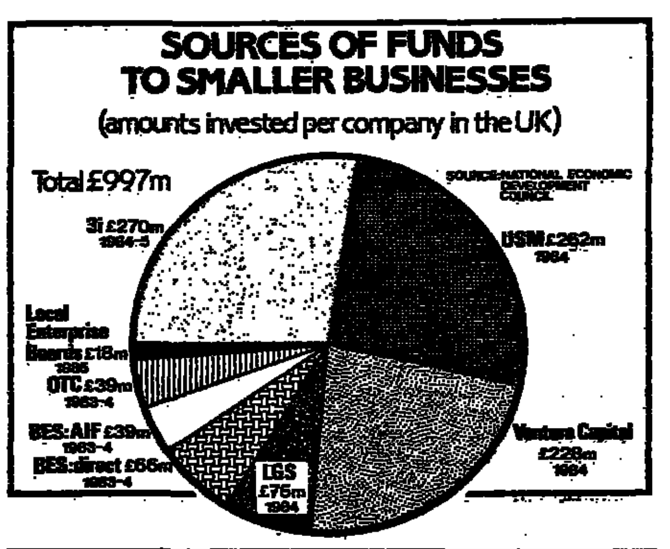
This can include providing important contacts, such as potential trading partners, acquisitions or joint ventures, making management changes or simply averting disasters.

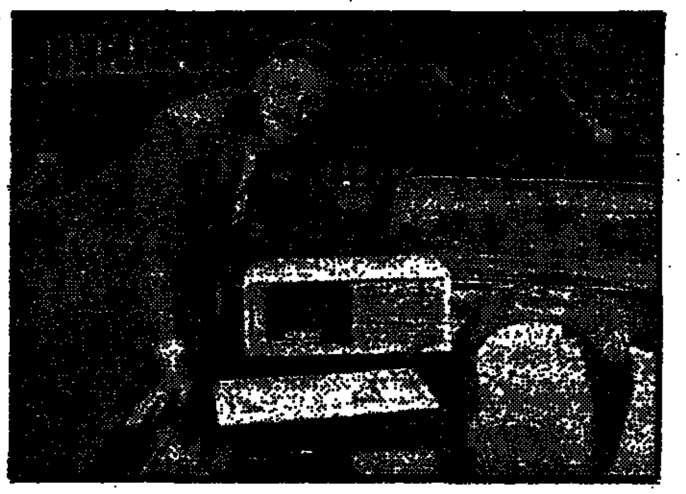
The industry is split between a minority of funds with strong US connections—like Advent, Alan Patric of Associates or Thompson Clive—which can fairly claim to offer this approach, and older-established players like Charterhouse Development or Investors in Industry, which tends to concentrate their skills on picking potential winners and confine their subsequent involvement in the company's affairs to being available for advice when required.

In addition, a growing number of funds claim to offer hands on support, though it is open to question just how many have the experience to steer a small business away from serious difficulties.

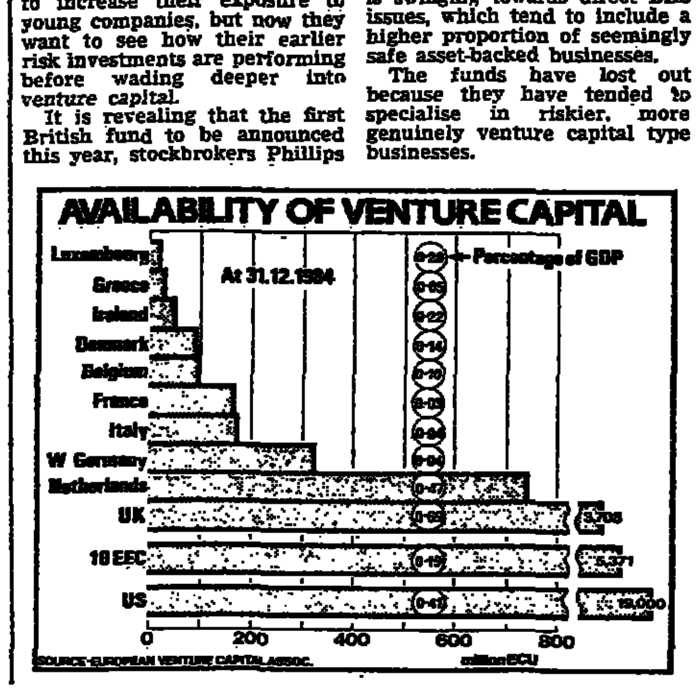
Some venture capital groups are already over-stretched. As the emphasis swings this year from backing new companies to assisting existing investments through their growth problems, it will become clearer how many practitioners have the right mixture of financial and management skills.

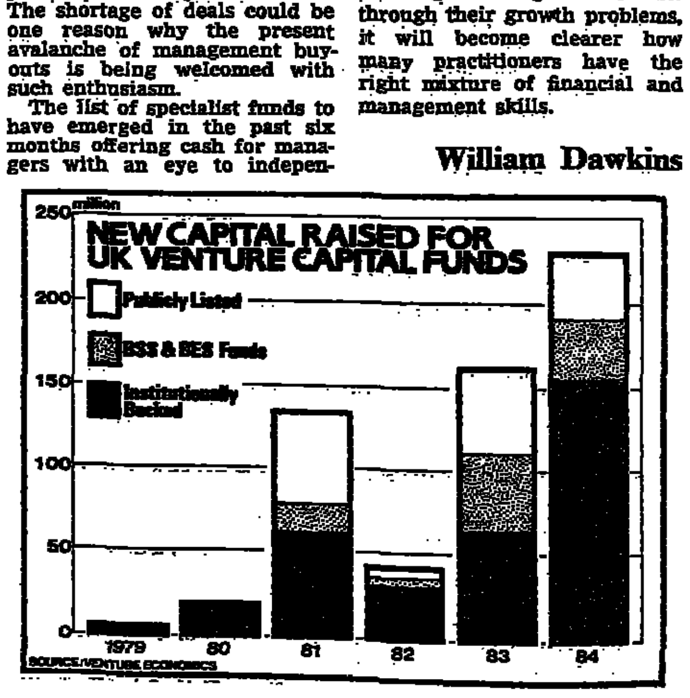
William Dawkins





Successes on the scale of Wang, Apple or Compaq (whose new portable II is pictured) have so far eluded British venture capital.





Private Sector

Push by big companies

NEVER HAS the big-company private sector been so involved with small business. The spearhead of its effort is the enterprise agency movement, now at what must be its apogee in terms of numbers, but also emerging with the central role in the development of the small business sector in Britain.

Enterprise agencies began in the late 1970s as a response to unemployment in a few areas. The community of St Helens Trust was the first. It was set up to provide independent advice and help for people wanting to start their own small businesses. The form it took was due almost entirely to Mr Bill Humphrey, a former big-company senior manager of independent means who was looking for useful service to do before he reached retirement age.

What he founded became the model for many others. Pilkington Brothers, the glass giant which still has its international headquarters in the town, led general support by other companies in the area and the local authority.

The benefit of hindsight shows that St Helens' role is actually more important than its being the first. The critical event may well have been a visit there in 1980 by the then new MP for Rossendale, Mr David Trippier. The onset of recession had seen unemployment quadruple in his constituency for much of the traditional Lancashire shoe and textile industries were wiped out almost overnight.

Replicate

Mr Trippier had heard about the trust and wanted to see if it could be replicated in Rossendale. Within weeks he had put together a consortium of local support and persuaded Natwest to lend an up-and-coming manager to set up Rossendale's agency and run it.

He then did something crucial to cementing the notion of the enterprise agency into national political consciousness. He persuaded Mrs Thatcher to open it. After seeing what the agency was doing, support for the general concept from No 10 has never wavered.

A parallel pressure was coming at the time from the then Environment Secretary, Mr Michael Heseltine. He had been to St Helens before the Toxteth riots of 1981 and, after them, saw enterprise agencies as one of the best vehicles for getting the private sector involved in the community — in their own enlightened self-interest, he argued — while at the same time helping small businesses to emerge as the main source of new jobs for the future.

The 1982 Finance Act made certain of growing support from the private sector by allowing companies to offset contributions in cash or kind against tax. By then, the big companies that were first in the field with secondments and other measures — and notably IBM, Marks and Spencer and Pilkington—had set up Business in the Community (BIC) to act as a co-ordinating umbrella organisation.

What gave an emerging national network of agencies the push into mushroom growth, however, was what happened next to Mr Trippier. After the 1983 general election, he became small firms minister. He immediately set a target of 300 agencies by the middle of 1986. At the time there were just a few score of them.

The target was reached before the end of 1985 and there are now 314. It is, however, doubtful whether much more growth in numbers is either possible or desirable. The reasons are connected with finance, how the agencies are run and the ever wider range of jobs they are being called upon to do.

Finance is likely to become a problem to many. The government helps with start-up and obtaining money from the private sector and the local authority has usually been relatively easy in the first flush of enthusiasm. The problem comes when the begging bowl is passed round in subsequent years. A big agency can cost up to £100,000 to run.

Some of the more progressive companies stopped being "soft touches" on this, contributing more selectively. Meanwhile it is also clear that there is not an unlimited supply of the people who do most of the work in the agencies—secondees from the private sector.

Midland Bank has 28 secondees out, mainly to enterprise agencies, at any one time. NatWest has 24, Barclays has 20. Marks and Spencer and United Biscuits, like other large corporations, operate rules of thumb, such as a set number of secondees for every so many million pounds' worth of turnover.

Some secondees may stay at an agency for three years if their job is to set it up or act as director. Most do shorter stints, usually a year, though large accountancy companies prefer nine-month secondments because they need all staff to hand when most clients have their audits.

The secondments are not made for merely philanthropic reasons. There is that, of course, but there is also a considerable benefit personally to the secondee in terms of growth and development and to the seconding company's management development programme. The image and profile of secondees

Mrs Jean Parker, the new chairman of the CBI's smaller firms council.

has changed considerably as the enterprise agency movement has grown and as the need for systematic policy in choosing the right people has grown with it.

If some companies still see secondment as a quiet, harmless backwater for older managers coming up to retirement or for their middle-managerial deadwood, their numbers are dwindling. Secondment is now part of what personnel directors call the management development dynamic.

Moreover, many secondees have returned to promotion and rising careers. Companies like Marks and Spencer even made sure they did — so that potential high flyers would see secondment as an important stepping stone to senior general management.

Nevertheless, only large companies can afford to put this sort of systematic commitment into secondment. At the same time, the agencies are consumptive of everything available. For example, St Helens usually has four secondees — one on permanent loan from Pilkington, two from different banks and one from an accountancy firm.

If an average of two secondees are needed for each enterprise agency each year — probably a conservative figure — 628 will be needed annually to staff the agency network as it now stands. Is it realistic to expect the private sector to maintain such a rate of supply, given that everyone is fishing in a relatively limited pool?

Rationalisation of the numbers of agencies may be inevitable on these grounds alone, irrespective of whether all the agencies are going to be able to find the cash to keep going in the long term.

The general, if unstated view, is that about 200 agencies ought to be enough. There is nothing particularly scientific about the target figure of 300 anyway: Mr Trippier arrived at it by proposing one agency per parliamentary constituency, then deciding this was too many and would overlap in rural areas with Cosira. So he halved the number he first thought of.

The pressures are likely to grow with the changing role of the agencies. Whereas the first agencies played a relatively simple part, mainly giving independent advice and helping would-be entrepreneurs set themselves up, what they do now has become steadily more complex and central to development of the whole small business sector.

Many clients now are existing businesses needing help to survive or expand. Some agencies have played a central role in the management extension programme, matching redundant executives to small company projects. Assembling complex financial packages for clients is also common. There may be involvement in business expansion schemes.

The provision of training for small business is also becoming part of the job. Many agencies have started small business clubs that run seminars and enable members to learn from each other. Mr Trippier wants to make the agencies the lynchpins of training, taking in the co-ordination of courses for people on the enterprise allowance scheme, for example.

Meanwhile, specialised agencies have started to appear. In London, the new ones for Deptford and Finsbury Park have black directors and their private sector backers include successful local companies run by black people and serving "ethnic" markets.

The idea of more agencies being responsible for managed workshops or small industrial units is also spreading. Wirral's first agency, the Unilever-backed In Business Ltd started four years ago in a disused school, converting classrooms into offices and workshops. Others have adopted the same principle, charging economic rents and generating income.

Self-funding

Managed workshops can, in fact, be a step towards self-funding if done properly. The example of BAT Industries in Liverpool and at the Bon Marché in Brixton is one to draw on. Mrs Jean Parker, the new chairman of the CBI's smaller firms council, is in business on her own account in this area.

Some agencies, such as Macclesfield Business Ventures under ICI secondee Mr John Rosthorn, have produced impressive books and manuals on setting up and running small businesses. These too can generate income from sales.

The private sector's involvement in small business, then, is largely by proxy through enterprise agencies and their umbrella organisation, Business in the Community. Explosive growth alone has testified to the need for the agencies' existence but growth is also a consequence of continuous success.

Success is partly due to their not being "official" institutions, partly through having to conform to private sector performance standards and partly because they are staffed by people with real business experience. Early developments were by accident: it will be interesting to see what happens with their role and future more deliberately planned.

Ian Hamilton Fazey

SOURCES OF HELP

Public Sector

Range of aid sources

PUBLIC SECTOR assistance and advice for small business is widespread but fragmented. The local enterprise agency is probably the best source of information on where to try for help and may actually refer clients directly to individual sources, such as the Small Firms Service.

The single most comprehensive publication, (Official Sources of Finance and Aid for Industry in the UK), is published by NatWest and can be bought for £5.50 from the bank. It is updated regularly.

Although what is available may appear bewildering, the broad areas of help fall into straightforward categories.

● **Location:** Britain has special development areas, development areas and intermediate areas where grants are available for plant, machinery, training and job creation, depending on the status of the area concerned. Some assistance is selective.

There is a contracts preference scheme where businesses in assisted areas will be favoured when tendering for contracts with the Government, nationalised industries or other public bodies.

Where there has been large-scale loss of jobs through mining, textiles and fishery closures, special help is also available, with most of the banks operating subsidised credit schemes.

Northern Ireland, Scotland and Wales have packages of help of their own. Generally, the further North or West you are of London, the greater is likely to be the help available.

● **Local Authorities:** Councils can provide help where they consider it will be of direct local benefit. They can provide mortgages of up to 90 per cent to buy land or carry out work on it. With government consent they can also sell land at below market value.

They can also provide improvement grants, prepare sites for industrial use, build advance factories and give employment subsidies.

In some areas designated for help under the Government's urban programme, urban development grants are available for joint schemes between public and private sector, provided the ratio of private sector input is around two or three times the amount coming from public funds.

Some local authorities run enterprise zones, where there is a rates holiday for the first 10 years of the zone's life, but the enthusiasm may well depend on the local council's political enthusiasm for the Government. For example, Liverpool's zone is near-derelict, Trafford's is enjoying a property boom.

● **Cosira:** This is the Council for Small Industries in Rural Areas and is an agency of the Development Commission, which was founded in 1909 to fight the large-scale unemployment caused by new technology of that era—farm machinery that reduced the need for human labour.

The Commission is responsible for advance factories in the countryside while Cosira's job is to provide business advice, consultancy, management and technical training, as well as loans and grants for buildings, plant and equipment. Help is limited to businesses employing fewer than 20 in areas with under 10,000 inhabitants.

● **Development Agencies and Boards:** These are geographically based, notably in Northern Ireland, Wales and Scotland, which has a national agency as well as a Highlands and Islands Development Board. Northern Ireland also has the Local Enterprise Development Unit (LEDU) which is modelled on Cosira but can operate anywhere in the province, where it creates more jobs in small business than its larger counterpart, the Industrial Development Board, does in big business.

● **English Estates:** Develops and markets property, mainly advance factories. It usually works with local authorities or similar bodies but also offers a professional design and build service for individuals. Mortgages are available at favourable rates.

● **New Towns:** Offer special aid on top of any assisted area support. There are 13 in England, five in Scotland and two in Wales. The first 500 sq ft starter units in Britain were built by Warrington New Town in 1980, complete with flexible, "easy come, easy go" leases. At the time, some local authorities were still demanding 25-year leases for their advance factories, which were too big anyway.

● **Urban Development Corporations:** Were set up to revive the derelict docklands of London and Liverpool. They have the same powers as local authorities to provide loans and grants under urban aid legislation. Despite well-publicised moves by large companies to the Isle of Dogs (also an enterprise zone), small companies can benefit just as much, and have.

● **Freeports:** Most have yet to prove of much worth, though Liverpool's, which is run by the Mersey Docks and Harbour Board, is a notable front runner. Freeports can be useful for maximising cash flow by storing imported raw materials within them until they are needed, thus avoiding paying all the value added tax "up front."

● **Development Associations:** Are sponsored by government, local authorities, trade associations and local companies. Their role is more advisory than financial but they can help on such things as marketing information, plants and sites, local costs and facilities.

● **Small Firms Service:** The SFS offers information and consultancy to small businesses. It operates through 12 centres, backed by 100 area counselling offices. Counsellors are often highly experienced retired executives or members of appropriate professions.

Information is free, as are the first three counselling sessions. After then the charge is £30 per session, which is good value for money compared with prices up to 10 times that much among private sector consultants.

Counselling in Scotland and Wales operates through the development agencies.

● **Quality Assurance, Design and Innovation:** Various schemes are available to provide help on manufacturing techniques, product design and development, biotechnology, microelectronics, and advanced production technology. There is also selective support for some research and development that will lead to new products or processes. Energy efficiency is also being encouraged at present and various forms of help can be obtained.

● **Exports:** The starting point for all advice and help is the British Overseas Trade Board. Numerous schemes and support are available, from researching markets to credit insurance.

● **Europe:** Various funds and schemes can be of direct financial help. All operate through the European Commission, which has offices in London, Edinburgh, Cardiff and Belfast. These are the best starting points for more information.

Ian Hamilton Fazey

Factoring, Forfaiting and Leasing

Cashflow problems can be eradicated

PROBLEMS facing small businessmen are legion and varied, although the frustration when dealing with the bureaucratic machinery of government probably ranks high on most lists of woes. That aside, a common complaint from small operators is the difficulty of getting their customers to pay, especially when that customer is a large group. Another is the uphill struggle to finance capital expenditure.

There are several ways these burdens can be alleviated, if not eradicated. Factoring, and in the case of exports, forfaiting, can stimulate cashflow while leasing can ease the pain of funding capital equipment.

Factoring is a method of turning a company's sales ledger into hard cash. It has had more than its share of criticism, often branded as a heavy-handed form of debt collecting. Companies who use the service of factors are also accused of being in financial difficulties.

Such comments are usually wide of the mark, although a fair criticism is that factoring can be expensive.

Four types of service are offered by factoring companies:

● Recourse factoring is where the client company receives a proportion of the face value of an invoice (usually up to 80 per cent) with the balance due either when the factor is paid or after a set time. If a customer goes bankrupt the company must reimburse the factor.

● Non-recourse factoring involves the factor, rather than the company covering the risk, and is therefore generally more expensive.

● Factors will also offer a straightforward sales ledger administration service. Invoice copies are passed to the factor to chase up, saving the small businessman considerable time.

● Invoice discounting involves the company retaining control of the sales ledger and debt collecting but cash is advanced against debts owed.

These services can be of considerable benefit in boosting cashflow, vital when small companies are rapidly growing and the strain on working capital mounts.

Increasing acceptance meant the market grew 22 per cent last year, according to the Association of British Factors, which has a total of eight members claiming to represent about 90 per cent of the industry. Their combined volume was £4.6bn for more than 4,100 clients, two-thirds of them turning over more than £250,000 a year.

Financing charges vary according to the quality of a company's customer base and the type of factoring, but charges tend to work out between 2 and 4 percentage points over base rate. Adding the set service charges to the financing costs — which depend on how much the company draws on the cash available against the invoices — can lift the total cost to 6.5 points over base rates, which is not cheap money.

A package of export services is also available from some factors to help exporters remove exchange rate and non-payment risks. But the small businessman may also wish to examine the service of banks offering forfaiting.

Forfaiting is similar to the services of the Export Credits Guarantee Department except that it is run by banks rather than the Government. Forfaiting involves discounting overseas trade bills or promissory notes by a finance house, without recourse to the exporter if the overseas customer does not honour its debt.

Forfaiting has been largely associated with the export of capital goods but in recent years it has been adopted for almost every type of good or service. If the terms are right, a forfaiter will finance it.

Risk

A typical transaction might involve a foreign buyer purchasing a large amount of capital goods from a British manufacturer with payments spread over three years and amounts due every six months. The UK company, however, might not want to wait for its money. A forfaiting bank would turn the bills of exchange into ready cash.

The bank would examine the credit risk of the country involved and that of the importing company's bank, which would be guaranteeing the bills. Assuming the London bank was satisfied with the credit risks, it would calculate the cost of discounting which is fixed in relation to the inter-bank rate.

This rate would be adjusted by two variables to take account of significant risks and for the term of the bills. Many forfaiters would also charge a commitment fee.

The cost of the service compares fairly well with ECGD cover generally but forfaiting often has the edge through flexibility and speed of commitment by the banks. Unlike government departments, they are not working to hard rules, and one bank may take a proposition that another will reject. Customers should shop around.

When it comes to attracting finance for capital expenditure, the businessman will normally turn to his bank first, but hire purchase could also be considered. Hire purchase by a company or partnership is little different to that by a private individual, so it is a familiar concept. The only difference is that a company can offset interest costs against tax.

Equipment leasing, however, may be alien to many smaller businessmen.

Leasing finance rose to prominence during the 1970s, although as a concept it has a few grey hairs. The long-standing rules of leasing were that the lessor (who provides the finance) would be the legal owner of the equipment purchased and could take advantage of the 100 per cent first-year capital allowances to reduce its tax bill. This was why the banks put their weight behind leasing.

The lessee (the businessman operating the equipment) benefited because the financier returned part of the tax benefit in lower "rental" charges. So the business could often obtain equipment at a lower cost than straightforward loan finance.

But Mr Nigel Lawson, the Chancellor, turned the whole formula on its head with his 1984 Budget. The 100 per cent first-year allowances have been phased out to be replaced by a 25 per cent writing-down-allowance from this April. Corporation tax has been reduced from the 52 per cent it stood before the 1984 Budget to 35 per cent. The financial benefits of leasing have been seriously eroded.

However, the initial effect on the equipment leasing industry has been boom conditions as companies have sought to maximise capital allowances. The industry's association, which represents 73 companies, reported a surge to a record £5.7bn for assets purchased for lease in 1985. That was a 43 per cent increase over the figure for 1984, which in itself was sharply up on the £2.8bn reported for 1983.

Moreover, the dramatic rise last year was set against a background of fairly modest growth for capital investment. Total capital investment by industrial and commercial companies rose by 13 per cent in cash terms, according to government statistics.

However, now the tax changes are fully implemented, leasing could see a setback. Lessors will have to do some hard selling.

Terry Garrett

FINANCIAL SERVICES

Mr Brian Jenkins (right), president of the Institute of Chartered Accountants in England and Wales: stressing the need for a more acceptable interface to help small businesses

Accountants

Champions set out stall

IT IS not surprising that Mr Brian Jenkins should see the role of the accountant as crucial in small business. He is president of the Institute of Chartered Accountants in England and Wales. One problem of the small business sector, however, is that this view is not always reciprocated. Many small businesses do not understand what an accountant can do for them. The accountant is their interface with the Inland Revenue but little else.

"People have to know we exist," he says. "Communicating with the small business world is difficult. We are trying to get over the idea that an accountant is there to help your business succeed."

Relaxation of the rules on professional advertising is helping this process. Accountants have been advertising and can set up stalls at exhibitions. The Institute has also set its own public relations machine to work, feeding articles to local newspapers and making programmes about small business, which have been taken up by 14 local radio stations.

"We stress that we have available all the relevant services a small business might need. We can be the interface with the bank, as well as helping businessmen to comply with regulations," Mr Jenkins says.

Many accountants act for a host of small businesses. "A lot of our practitioners like to think of themselves as finance directors of a lot of small companies," he says. The role goes beyond the provision of a service. "We are trying to train people to be businessmen."

The other point is that advice is independent and paid for. Accountants are not a financial police force working for the Government and the banks. They have no axe to grind but their clients', as some will point out when criticising bank managers for appearing to be impartial when they often have pecuniary interests in customers following a particular line. Indeed, an accountant will usually be able to negotiate a better deal with a lender than most small business owners can on their own.

Finding the right accountant is another matter. Mr Jenkins argues that a chartered one is best because other types of accountants are not subject to the Institute's professional codes and disciplinary procedures—and certainly not the unqualified ones who call themselves accountants.

The Institute has now agreed with British Telecom that chartered accountants will be grouped as such in Yellow Pages, instead of being lumped in with all other types.

Ideally, Mr Jenkins would like small businesses to have enough gumption to know roughly what services they might need, and then track down a firm of accountants best able to provide them. But he acknowledges that some small-business people have little idea where to start.

"There are 22 district societies all willing to help. Anyone wondering where to start should approach the local district. They will provide a list of members and can advise on who specialises in what.

Some district societies have formed business support clubs, with a free service available and initial help to ensure that the right match is made of client and accountant.

"We are as much in the area of supporting business as reporting on it. We see ourselves as the natural champions of small business," Mr Jenkins says.

The institute is already becoming one of the growing number of small-business lobby groups. Indications are that the Government is taking some of the things the institute has been saying very seriously, and could be announcing changes soon.

"We have set out to help on deregulation. We have also tried to avoid our own requirements on accounting standards becoming too complicated. Among other things, the Government does not distinguish between auditing requirements for different sizes of company," he says.

Simplify

"We believe there should be a major simplification in reporting. The tiny company has to prepare the same accounts as a group like ICI. The 12 pages of requirements for small businesses could be reduced to four.

"Is there any need for small businesses to have an audit? It sounds as though we are talking ourselves out of a job, but where the shareholders are also the managers it does not make sense."

Do banks, creditors, and so on need to see accounts? "The bank can make its own arrangements with a business it is lending money to—and should. Management accounts are more important to both the business and the bank. Audited accounts are almost always a year old.

"Because of the close relationship we have with small business we would be able to help redesign and simplify forms and procedures."

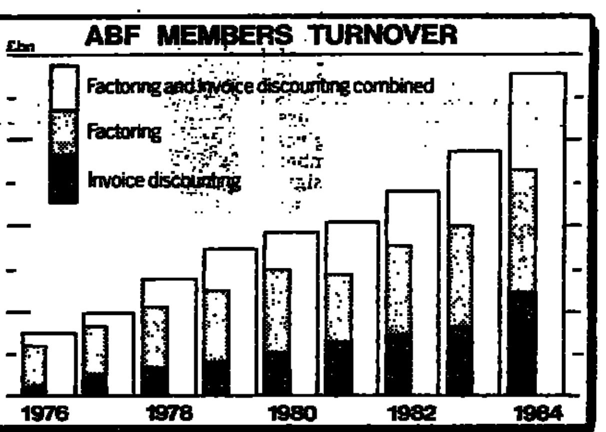
Mr Jenkins, who is a Cooper and Lybrand partner, also has important points about the size of accounting practices suitable for small businesses. "Size is no indication of the market a practice is trying to service," he says.

Some small practices are highly specialised and have only big clients. On the other hand, most of the accounting giants—including his own—have set up special departments for small businesses.

Again, it depends on what the small business needs or might need. If it is likely to end up on the Unlisted Securities Market or even become fully quoted on the Stock Exchange, it will probably need to engage a big practice early on because having the "right" auditors will affect confidence.

Such a business will almost certainly need to have its own finance director, and if it is still small it will not be for long. Its relationship with its accountants—by now the firm will have put more than one of them on the job—will be very different from that of most small businesses.

Ian Hamilton Fazey



Pensions

Unlocking capital for entry to loans

EVERYONE RUNNING his or her own business needs at some time to consider pension arrangements, for one thing is certain. If they leave it to the state they will get very little.

The entrepreneur is usually too busy running the show to be able to spend much time thinking about retirement. All too often, capital is tied up in the business which it is thought, can itself be the pension.

Such an attitude, while perhaps understandable, presupposes that the business can be brought to a conclusion when the businessman retires and that the necessary cash can be taken out.

It is usually far more prudent to save in advance for one's pension, and, the earlier the start, the greater the ultimate benefits.

A pension arrangement, whether for the self-employed or for controlling directors, is the most tax efficient means of provision. Contributions attract tax relief at the top tax rate, and investment is made into tax-exempt funds.

On retirement, part of the pension can be converted into a tax free lump sum and there are provisions for paying tax free lump sum benefits if the holder dies while still working.

There are a plethora of schemes on the market from a variety of sources. The self-employed must take out pension plans with a life company, but there are schemes which allow them to be involved in the underlying investments if this is required.

Controlling directors have a choice. They can either take out a scheme from a life company, or run their own DIY scheme, known as a small self-administered pension scheme.

Money put into a scheme would at first sight appear to be locked away until the businessman retires or dies. There are ways and means, however, of unlocking this capital and of using the scheme as a means of entry to loan facilities.

Almost all self-employed pension plans carry loanback facilities. These come in two forms, both of which are automatic. Under the first, the self-employed can borrow from the life company up to the accumulated value of the fund in his pension contract. The loan then becomes an asset of the policy.

The second facility offers the self-employed borrowing rights up to a multiple of the annual premium being paid on the policy. This multiple which varies with age can be as high as 21. Thus, if the self-employed is paying £1,000 annual premium he can borrow up to £21,000.

These loan facilities are automatic, with no questions as to the purpose of the loan or the covenant of the borrower. The self-employed has to put up some other form of security as collateral—usually a house—since the pension contract cannot be assigned.

The self-employed only pays interest on the loan and repayment is usually made from the tax free lump sum at retirement.

This second facility provides a source of capital that is in addition to the normal banking facilities and can be used for business or private purposes.

Loanbacks on controlling director pension arrangements are somewhat different. Here the businessman can borrow up to 50 per cent of the pension scheme's assets, the loan being on commercial terms and forming part of the assets of the scheme. Thus it unlocks the capital, but only for business purposes. A scheme with a life company usually offers personal loan facilities as well.

However, such loans can provide much needed finance on a tax efficient basis. For example, the company pays £100,000 into a pension arrangement, the net cost being £71,000 under the new small company tax provisions. The company can borrow back up to £50,000—leaving the net cost just £29,000. The company claims tax relief on the interest payments, but the pension scheme, being tax exempt gets the interest gross.

The small self administered scheme offers a further investment facility. It can be used to finance property developments by the parent company or to finance any other capital project.

The company wishing to buy a property for say £100,000 pays this amount into the pension scheme, getting tax relief. The pension scheme buys the property, and leases it back to the company. The company gets tax relief on the rent, which the pension scheme receives gross.

The operation of a small self-administered scheme is highlighted by the experience of one company Salt and Son—a long established family firm in Birmingham making and marketing surgical appliances. It set up a scheme late in 1979 for seven directors—all members of the family. They were advised by Pointon, York, a leading firm in this area.

Early in 1980, shortly after the scheme was set up the pension fund purchased a combined office and warehouse which was then leased back to the company.

The company has expanded steadily since then, financing much of that expansion by loanbacks from the pension scheme.

Recently, the company wanted further office and warehouse accommodation. Again the pension scheme bought the property and leased it back to the company.

Around one-third of the assets of the pension scheme are loaned back to the company. In addition, the scheme is ready to pay the pension, if the head of the business decides to retire, without having to touch any capital in the company.

Up to now, the financing arrangements of these pension schemes have been extremely flexible. However, the Budget proposals on pension fund surpluses and compulsory refunds will change this.

Eric Short

A fast-food outlet: one of the most popular forms of franchising.

Franchising

Something for everyone

FRANCHISING has become one of the small business sector's most popular forms of expansion for companies lacking the capital to do it themselves, and for individuals wanting to enjoy the benefits of self-employment without many of the drawbacks.

In Britain, it provides over 110,000 jobs, and sales through franchised operations account for at least £1.75bn. Mr Ian Neill, chairman of the British Franchise Association, the main trade body, believes that "growth is on target to reach a projected £5bn, by 1990."

Franchising has become a popular business format, because it offers virtually something for everyone. The franchisee is using a format that has been proved many times, and there is therefore a good chance of success for any individual who is qualified.

The franchisor, on the other hand, can build a network of reliable, motivated partners more quickly than could be achieved through conventional expansion.

Franchising, however, is by no means a new form of business organisation, even though its growth in the UK has been particularly rapid over the past few years. Its origins can be traced back almost two centuries, to when brewers first created the tied-house system to guarantee outlets for their beer.

But it is the second generation, or "business format" franchise operations, where most of the growth is being recorded, and on which most attention is focused. These franchises are often fast-food outlets, or service operators such as rapid printing or cleaning, although there appear to be few services or operations that cannot be franchised, albeit with varying degrees of success.

The usual definition of franchising is that a company establishes a contractual relationship with owners of separate businesses, which then operate under a franchisor's name, in a specified manner, to market the product or service.

The franchise company—the franchisor—offers the would-be small businessman (the franchisee) essential know-how, equipment, materials, and local rights to a nationally advertised trade name.

In return, the franchisee pays over a lump sum to begin with, then a continuing royalty, which can either be a percentage of turnover, or a surcharge on the cost of the basic supplies. The royalty covers the cost of any further training, advice, administrative back-up, and local and national advertising.

Research carried out for the British Franchise Asociation shows that the outlay required from a franchisee is on average £26,000 per unit, consisting of just under £5,000 for the fee and £21,000 for the equipment and fittings. To this must be added, by the time the franchisee reaches his "recommended" level of turnover, a further £9,900 on average.

This is made up by a 5.5 per cent royalty on turnover, costing £6,875; a 4.5 per cent mark-up on all supplies bought from the franchisor (£1,850); a contribution to advertising, which averages £1,080; and "flat charges" amounting to around £100.

These payments vary considerably, both in range and combination. Fess can range from under £1,000 to over £100,000, while equipment can cost £100,000 or more. Royalties on turnover can approach 15 per cent, and in a few cases the mark-up on supplies can reach 50 per cent.

Motives

Although the average franchisee is aged about 40, married with children, and with a history of fairly steady employment, there is really no such animal as the typical franchisee. Nontheless, the majority of franchisees are either white-collar workers or more self-employed before entering franchising. Manual workers are not yet a significant force, while executive-level redundancies during the recession prompted a surge in this type of franchisee. In addition, women are showing an increasing interest in franchising.

Most franchisees are individuals rather than companies, operating either as one-person units performing a service, or as owners of small retail units employing staff to help them.

Before becoming a franchisee, would-be entrepreneurs are usually advised to consider a number of factors—not least their motives, for people should not delude themselves when considering their own capabilities and long-term ambitions.

Once you are satisfied that you are suited to become a franchisee, you then have to decide what sort of franchise operation you want to get into. Do you, for example, want to run a fast-food outlet with the unsocial hours, or be constantly on call for a service business such as drain-clearing?

Another determining factor is the amount of capital you have available. The major clearing banks, especially Barclays and National Westminster, have become significantly involved in providing funds for franchisees, and their experience and expertise is well worth considering. But choosing a franchise simply on the amount of funds available—rather than because you feel it is right for you—may lead to problems later.

Choosing a franchisor can also be difficult. One way of sorting out the better ones is to consider how the franchise is offered. For example, the use of an advertisement that gives only a post office box number may be an early-warning sign.

It is possible to tell a lot about a company by establishing such facts as: how long it has been in business, its financial strength (including credit rating), and the bank references it offers. Ask about its plans and prospective development, how selective it is in choosing franchisees, and how successful these become. Speak to some of its franchisees at random.

While the future growth potential of franchising seems assured—helped by the efforts of the BFA to "clean-up" some of the more unscrupulous operators — its popularity is beginning to cause some problems.

Last month the European Court made an important ruling on the terms and conditions of a Pronuptia bridal-gowns franchise operation in West Germany This could have widespread implications for the franchise industry in Britain and the rest of Europe and the European Commisison in Brussels is expected soon to issue a policy statement.

Not surprisingly, Mr Neill, of the BFA, believes it is time for the Government to appoint a senior Whitehall official to take responsibility for the development of franchising. "This will ensure that the voice of franchising will be heard when relevant legislation is being considered," he adds.

David Churchill

** The British Franchise Association, 75a, Bell Street, Henley-on-Thames, Oxon, RG9 2BD. Telephone 0491 578049.*

Science Parks

Upper-class image for the clients

FIFTEEN MONTHS ago, when Cadlinc moved on to the Highfields Science Park at Nottingham University, it had the site to itself. Today the park is full, with the exception of the largest single unit, a 5,000-sq-ft building, as 15 others have joined the move to better premises.

One of those who joined soon after Cadlinc was Warwick Instruments, which moved from the centre of the city. "The environmental aspect was an important consideration for us," says Mr Warwick Adams, the company's head.

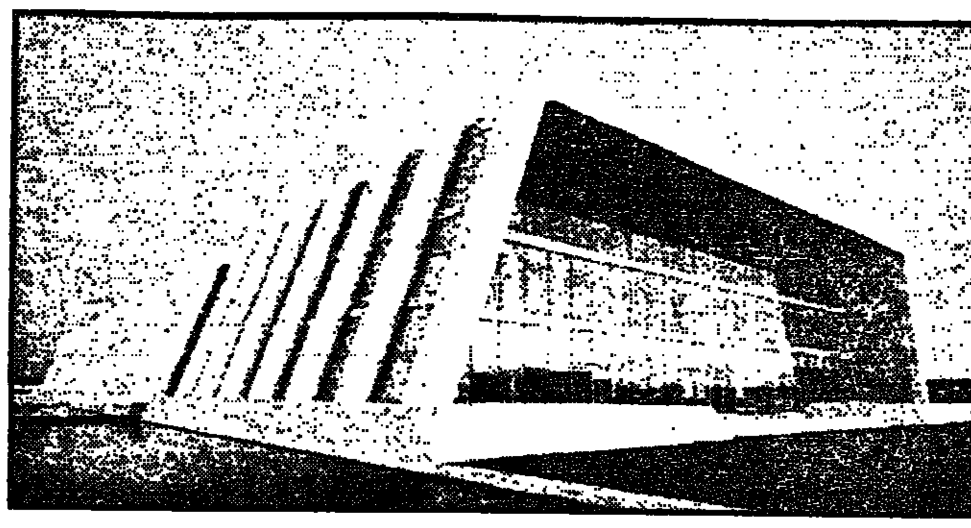
"We design and manufacture electronic medical equipment, and, with our sort of work, presentation is part of our marketing strength. The accommodation here is definitely upper-class, and helps to create an image of us in the eyes of our clients."

Digicom Communications, which designs and manufactures data communications systems, employs 11 people, two fewer than Warwick Instruments, and arrived two months afterwards.

Mr David Riley set up the company in London and moved to Nottingham when he had to find premises in a hurry. He is pleased with the site but less happy with the construction of the building, which is architecturally advanced but sets practical problems for his type of organisation.

"Even so, just being on the park gives you an advantage, because clients think you are doing advanced work there," he says.

"There is also a lot of interaction among the various companies on the park. We get together over a drink and discuss our problems. We also lend each other pieces of equipment. You would not get that sort of interaction outside in the city."



The Napp Laboratories complex in the Cambridge Science Park.

Companies such as Warwick Instruments and Digicom Communications are typical of those who move to science parks. Their equivalents can be found elsewhere in the 25 or so science parks attached to universities around the UK.

Most are small. The average company at Listerhills, attached to Bradford University, has around 20 employees. And even in Cambridge, where the park, the first major one to be launched, has a sprinkling of larger companies among its 67 occupants employing over 200 the remainder are still very small by industrial standards, averaging just over 20.

It is not just environment that attracts companies to science parks. The main draw is that the parks have been set up in a way that encourages interaction with the university and university departments.

Companies moving to a science park believe they will be able to tap in to the resources of the university. It is all the more surprising, therefore, when someone like Mr Adams says this simply has not happened.

"We chose the park not just for its layout but also because it offered us the opportunity of working with the university. Indeed, the university made a strong point of this in its promotional literature.

"Unfortunately, it has not happened in our case. We do some of our work on developing and manufacturing medical instruments in conjunction with people in the university, but not as much as I thought we would.

"When we came, we were told we could link into the mainframe computer, but it has not happened, and I doubt if it will."

Mr Riley is also surprised at the lack of links with the university. "The people there are very good to us and I use their facilities a lot, probably more than anyone else on the park.

"Very few university people take any direct interest in our work, though. I am very surprised there has been no approach the other way, because, in our field, we have produced a system which monitors what people take from their mini-bars in hotel rooms through a link on the TV sets in the rooms — a system which has been sold to the US and which, I believe, is the first of its sort in the world. I thought this might interest someone."

Nottingham, unlike some other universities, does not offer central services such as a switchboard, secretarial assistance and general cleaning — all available, for instance, at Warwick.

With the first stage of the development all-but let, Nottingham is now exploring the possibility of pulling up another building. It has the space—14 acres in all—and is anxious to play a role in "preventing companies slipping down the motorway to the prosperous south east," in the words of John Webb, the university's industrial liaison officer.

A second phase would allow the university to put in central services. There is also a plan to allow one company, Krypton Computers, to set up on the park in a larger way than the existing companies. It is expected that Krypton will have some 75 employees by the end of the year, almost doubling the present total workforce on the park of about 90.

Nottingham is a fairly representative park among those associated with universities. Most do not seek large-scale manufacturing, and while none offers grants to attract small companies, most are looking for the small company that wishes to be involved in transfer technology. Leeds, Aston, Hull, Aberystwyth and Heriot-Watt are examples of this emphasis.

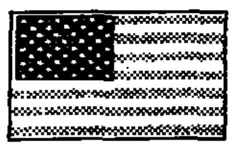
Science parks are not necessarily, or even solely, linked to universities. The academic links of some are tenuous. Warrington operates the Birchwood Science Park; the Welsh Development Agency has the Deesside Park, at Wrexham; and there is the Cadcam Centre, at Middlesbrough. These are basically property developments, with emphasis on the sort of environmental characteristics at which "true" science parks aim—a low building density in relation to the total space.

Some colleges of further education, such as the South Bank Poly or Bolton College of Further Education, have sponsored, as have some companies, such as Plessey in Liverpool. All of these cater in their way for the small company, creating better opportunities than ever for the one-man, two-man operation to start up in high-class surroundings.

Anthony Moreton

The US

Battle between Congress and the White House



THE US Small Business Administration has plenty of friends in Congress, but few in the White House. Once again, as Washington grinds into gear for its annual budgetary battles, the SBA is set to become a battleground, threatened with extinction by the Administration, but supported by its Congressional allies.

The arguments over the future of the agency, created 30 years ago when small business was very much the poor relation of the big companies that dominated the US economy, reflect typical Reaganite concerns over the role of Government in business.

First, there is the general question of whether small companies need a separate sponsor in Washington at all. The job could be done just as well, and much more cheaply, the critics say, by other Government departments.

Second, there is a widespread view that small business in the US has enough private-sector support to be able to get along quite satisfactorily without Government help. When the agency was born, the small-company sector had attracted little of the recognition it has since gained as a vital underpinning of a vibrant economy. The banks were reckoned to be less supportive than they are today: there was only a limited amount of venture capital available to help small companies through their early years, and much less general encouragement for young enterpreneurs.

Third, there is the question of how effectively the SBA spends its funds. The agency's critics contend that it picks up far too many dud loans, although to some extent its function is to be the lender of last resort to companies unable to find funds elsewhere. According to Congressional calculations, up to a quarter of all SBA companies default.

Fourth, many small companies themselves feel no particular affection for the SBA. A poll of the membership of the National Federation of Independent Business (NFIB), conducted in 1984, revealed that around 80 per cent felt that the agency had a neutral or negative effect on their companies. About 70 per cent said they had never contacted the SBA.

Defenders of the system, however, believe that the US corporate sector would lose something if the SBA were not there. Funds from the agency are generally available to any company that has fewer than 500 employees and has been denied credit by two banks. It hands out a mixture of direct loans (about $100m this year) at rates tied to Treasury issues, and guarantees a large portfolio of loans (about $3m last year) made by the banks at rates about 2¼ per cent to 2¾ per cent above Prime Bank Rate — money that is not cheap but which might not be available elsewhere. Its existing portfolio is worth about $16bn.

At the same time, the SBA wears a number of different hats. It is, for example, the main sponsor for small business in Washington, a city where lobbying is regarded as essential by virtually any organisation which wants to survive. For this reason, the NFIB believes that the SBA Office of Advocacy at least must be retained from the present organisation. Indeed, it would like the head of the SBA to become a cabinet minister—"small business is large enough and essential enough to the economic welfare of this country to have its own agency," it says.

Second, the SBA helps small companies win Government contracts through a process of combing through tenders and farming out business to companies that do not themselves have the resources to do the investigative work. It also has a similar central role in the direction of Government research and development funds.

Some of the cash from the 11 Federal agencies that generate R and D contracts is funnelled through the SBA to smaller companies that might not otherwise receive it—at the moment, funds from this programme are running at around $500m a year.

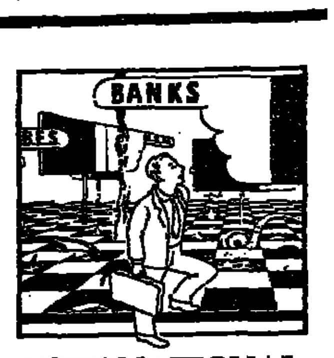
Finally, the SBA regulates Small Busines Investment Companies, venture capital firms to which the agency makes loans at the rate of about $200m a year.

Selling off

To fold up these operations under the White House plans would cost around 2,000 jobs out of the present staff of 4,000 in Washington, irrespective of the 50 or so state offices, each of which employs around five people. The jobs that remained would be absorbed into other departments — the Treasury taking responsibility for the loans, for example, and the procurement division going to the Commerce Department.

Many of the Congressional alternatives to the White House proposals also advocate some dismemberment. One plan, for example, envisages selling off the loan portfolio to the private sector; another would keep the procurement division but get rid of most of the rest.

While it is by no means clear what the outcome of the struggle over the SBA will be, the intensity of the debate over its future testifies to the increased awareness of the small business sector in the US.



INTERNATIONAL SCENE

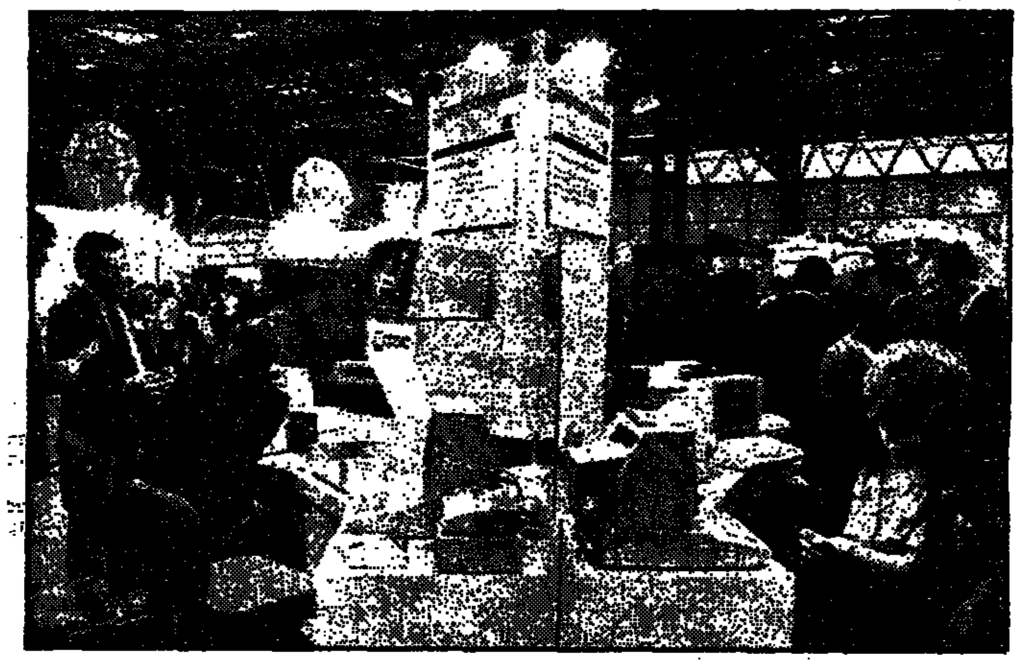
One way of looking at these businesses in aggregate, says the NFIB, is that they constitute the fourth largest economic power in the world—ahead of West Germany in the size of their gross production potential.

The companies in this sector account for about 50 per cent of the US economy — a little over half of the non-military private sector workforce, and a little under half of GNP. Since over threequarters of all the businesses in the country employ under 10 people, companies of under 500 employees make up a very large element of the growing technology sector. Indeed, one of the SBA's former clients was Apple, the Californian computer group which went on to become one of the most extraordinary growth companies of all time.

The small business sector has also been growing very rapidly in an explosion of activity which economists find difficult to explain. Driven by steadily accelerating interest in the service industries, the US created around 650,000 new businesses last year, or a net 60,000 after closures and failures.

By the end of 1985, there were 15m small companies operating in the US. Clearly, for the politicians, these businesses constitute an interest group which cannot be ignored.

Terry Dodsworth



Apple, the Californian computer group, a former client of the SBA. The business became one of the most extraordinary growth companies of all time

US Government loans to small businesses

	1985	1984	1983	1982	1981	1980	1975	1970
Loans, all businesses	19.3	21.3	19.2	15.4	28.7	31.7	22.3	15.1
Loans to minority operated businesses (000s)	2.8	3.1	2.7	2.5	5.2	6.0	5.4	6.3
Percentage of all businesses	15	15	14	16	18	19	24	41
Value of total loans ($m)	2,796	2,999	3,007	2,038	3,668	3,858	1,594	710
Loans to minority operated businesses ($m)	324	338	295	238	454	470	229	160
Percentage of all loans	12	11	10	12	12	12	14	23

1970, 1975 Fiscal year ended June 30. 1980 onwards Fiscal year ended September 30

Research: Rivka Nachoma.

West Germany

Subsidies to top up savings

WITH A Federal election coming up in West Germany early next year, politicians are bound to be vying with each other for the role of champion of small business. After all, small business is a traditional virtue which has figured on the agenda for legislative support in Bonn in recent times.

All major parties have been in favour of steps to encourage more West Germans to start their own enterprise. There is also wide recognition of the need to help small and medium-sized businesses to obtain outside capital as they grow.

In one important move last year, Parliament agreed to encourage people to save money in preparation for starting their own business. The Government will help by providing a subsidy, once the savings are used to set up a business.

It will add 20 per cent to an individual's savings, with a maximum subsidy of DM 10,000 (£3,030) to qualify, the individual has to save for at least three years and up to ten years before embarking on his small business.

One of the government sponsors of this move pointed out that if a person put just DM 400 a month into such a savings plan, he would have DM 50,000 (including subsidy) in seven years. This amount was actually 50 to 100 per cent more than many people had when they set up a small business today, he said.

The Bonn Government has also been pushing through measures aimed at giving small to medium-scale businesses better access to outside capital.

This is part of the thinking behind the rather complicated and slow-moving process of stock market reform in West Germany. One aim of this reform is to provide legislative backing for a segment of the stock market to which small and medium-sized companies would have easier access.

Lately debate in Bonn has revolved around the Government's Bill to provide more favourable tax conditions for certain types of investment companies. These companies are seen as important intermediaries between small to medium-sized businesses on the one hand and stock market investors on the other.

It is expected that the investment companies would take holdings in businesses and finance these moves through the sale of their own listed shares (either voting or non-voting shares) to investors.

While the Bill was still under discussion, Deutsche Bank and the small private bank of Karl Schmidt made a public offering of shares late last year in a jointly - sponsored investment company tailor-made to the new scheme.

The banks have been careful to respect the traditional wariness of small businesses to the danger of falling under outside control in the process of getting capital for expansion.

In its initial portfolio, the investment company listed a stake in 12 businesses—but in each case, only a minority holding. In addition, it issued its own shares to stock market investors in the form of non-voting preference shares, as a further way of keeping investors at arm's length from the small businesses involved.

Resisting

On top of that, the banks withheld the identity of three businesses in which their investment company has a stake, although they gave other details as a guide to prospects.

The Bonn Government has taken the view that measures such as these should help to provide a better framework for small to medium-sized businesses. There are already other long-established measures to help these businesses, such as loans on favourable terms through the government-owned Kreditanstalt Fuer Wiederaufbau.

But government ministers have been resisting calls for a special investment subsidy to encourage small and medium-sized businesses to secure their future by investing more. Among those persistently calling for such a subsidy has been the Handwerk (craft) association, representing half a million small to medium-sized businesses in a wide range of activities, including baking, butchery, building crafts, and metalworking.

The Handwerk businesses, as a whole, invested about 5 per cent less last year than in 1984, but with general economic conditions continuing to pick up in West Germany, their investment is expected to grow again this year.

Handwerk is a significant economic sector in West Germany, partly because it is the biggest single training ground for apprentices, some of whom go on to big industrial companies.

Craft businesses related to the building trade have been going through a bad patch in the last couple of years because of the building recession. Other Handwerk businesses, however, have been performing better and are more optimistic about prospects.

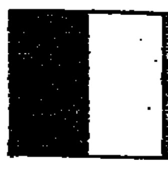
Even though the West German economy is in the fourth successive year of moderate growth, business failures have been reaching new records. But new businesses are also being formed at a greater rate.

After all, economic revival is expected to gather pace this year, partly because of personal tax cuts and partly because of the cost-saving impetus from lower oil prices. On top of that, interest rates are relatively low and venture capital concerns are looking for investments.

John Davies

The Netherlands

Middleman is eliminated in new approach



SMALL BUSINESS in the Netherlands is enjoying better health and more attention than for some years. The economic recovery is trickling down from the large, international companies to the small and medium-sized ones, and a resurgence of entrepreneurial spirit is fuelling new companies.

Banks and established companies are showing fresh interest in financing young, innovative concerns, while local communities and universities are clamouring to set up business centres which foster fledgling companies.

The Dutch Government has endeavoured to simplify and better target the host of financial aid schemes for medium and small-sized companies (MKB, as it is called in Dutch, which stands for Midden-en Kleinbedrijven).

In a major policy shift last year, the Economics Ministry announced that MKB subsidies henceforth would be funnelled more directly to the companies themselves instead of to other institutions providing services to MKB. The new policy loosens the financial strings from The Hague and gives more rein to the business community.

Mr Evert Elbertse, the small business specialist for the VNO, the largest industry association in the Netherlands, explains: "The general trend is away from supply and toward demand. There is a realisation that you can't regulate everything from The Hague."

Sunrise industries

The fresh focus on MKB began in the late '70s with a seminal "Innovation Bill" that called for re-industrialisation through technical renewal and stimulation of promising industries, with special attention to young companies.

That was followed by the Wagner Commission, a prominent Government-appointed panel which sketched plans for invigorating "sunset" industries through new innovative products and processes and for nourishing promising "sunrise" industries such as microelectronics, bioengineering and telecommunications. One major strategy was to promote more cross-fertilisation between scientific institutions and the business community.

By 1981 the Government had established a state-guaranteed venture capital scheme in which 50 per cent of a venture's eventual losses over five years are covered. To help boost rapidly growing young companies, the parallel market was established in 1982 alongside the Amsterdam bourse as an official market with more lenient listing requirements.

The economic recession of the early eighties hit small business harder than the big, export-oriented companies, which could slash operations and seek new markets overseas. But the domestic-oriented MKB, which consists of companies with fewer than 200 workers, was largely dependent on the slumping Dutch economy and simply had to weather the storm.

Now that economic recovery is entering its third year, the upturn is finaly lifting MKB, which accounts for 97 per cent of all Dutch companies. The fastest growing sectors are business services, especially computer services, semi-finished product suppliers and transportation, according to an annual MKB study by Rabobank, a co-operative bank and the second largest bank in the Netherlands.

These sectors benefit from more subcontracting by the big, international companies which increasingly are concentrating on their core activities and relying on suppliers for peripheral activities. Rabobank estimated that turnover in the computer services sector of MKB would surge 15-20 per cent last year, while sales in the semi-finished synthetic materials sector would spurt 16½ per cent.

The number of new companies continues to rise, and the growth rate is better than official figures indicate, according to Mr Elbertse. He explains that a greater desire for business ownership, modest wage rises, stable rents and lower interest rates are fueling the growth.

The most significant trend in Government policy toward small business is transfering more responsibility to the private sector, in return for carrying higher risks. The 10-year-old credit guarantee scheme for MKB was streamlined last year so that banks can now make bigger loans without Government approval, while the borrowing companies must meet stiffer requirements.

At their own discretion, banks can lend up to Fl 800,000 for mortgages and lesser amounts for operations and investments. But borrowers' guaranteed assets now must equal 10 per cent of the balance sheet total, up from 5 per cent previously. Rabobank, which is active among small- and medium-sized business, recently called on The Hague to simplify further the credit scheme regulations in exchange for increasing the banks' risks, now 10 per cent.

The subsidy scheme for management consultancy, which began in 1984, was also drastically revamped last year, so that financial aid now goes directly to the companies involved instead of to the consulting firms. The scheme covers 40 per cent of the costs of outside consultancy and is especially aimed at introducing new automation techniques into small- and medium-sized companies.

The Hague believes that channelling aid directly to the companies will better ensure that they get the advice they need, rather than some windy words from a consulting firm that is assured of a Government subsidy no matter what.

A related programme, which began only last year, is the management consultancy scheme specifically for beginning companies in innovate fields, which covers 60 per cent of outside consulting costs.

Bandwagon

MKB is also targeted for about 70 per cent of the Fl 1.1bn funds available under the innovation-stimulation programme that covers up to 55 per cent of research and developing costs.

Banks and large companies, too, are playing an active role in financing MKB. Rabobank launched a Fl 40m investment fund last year for aspiring entrepreneurs: it will be used to guarantee subordinated loans with market-related interest rates. Nederlansche Middenstansbank (NMB), whose name can be translated as "shopkeepers' bank," launched a Fl 10m fund to provide subordinated loans and risk capital to beginning companies. NMB, which specialises in MKB, already controls several venture capital funds totalling Fl 100m, of which Fl 60m has been invested in 75 companies.

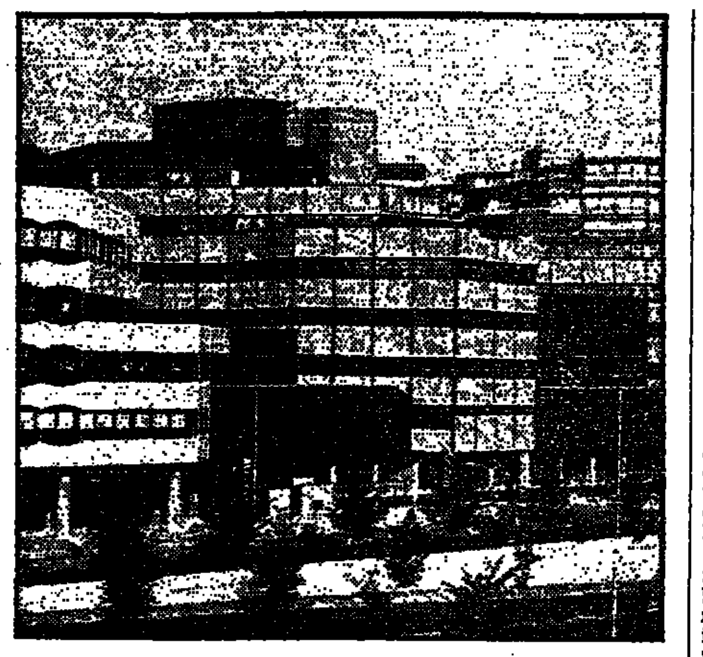
Philips, the Dutch electronics giant, has actively supported promising young companies for several years through venture capital funds and microelectronic business centres. Three microelectronic business centres have been founded in Eindhoven, Delf and Twente, to promote research and development through links with nearby academic institutions.

Universities and local communities have eagerly joined the bandwagon in establishing business centres where subsidised office space, management advice and technical facilities are available to young companies. Around 100 of these multi-service "industry hotels" dot the Netherlands, more perhaps than anywhere else in continental Europe, according to Mr Elbertse.

Universities and technical schools have founded about 10 so-called transfer points, where scientific research is shared with private companies. The Fl 15m project is designed to avail young concerns of academic findings for product and process development.

In contrast to the promising high-tech sectors of MKB, two traditional sectors remain plagued with overcapacity and sluggish demand: construction and retail trade. The construction industry which is dominated by many small companies, is believed to have little hope of a rebound for some years while the retail trade industry faces a slightly brighter future. More buoyant consumer spending this year should help retail trade and a gradual shakeout in the industry is expected to trim the excess capacity.

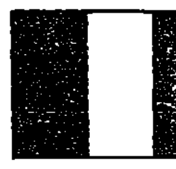
Laura Raum



The headquarters, in Utrecht, of Rabobank, the second largest bank in the Netherlands.

France

A rare area of consensus



JUDGING BY the declarations of politicians in France, the words "small business" are engraved on the hearts of the left and right.

Although France is one of *the western countries* with the largest proportion of small and medium-sized companies, during 30 years of post-war economic expansion it has never taken the country's Petites et Moyennes Entreprises (PMEs) to its heart.

All this has changed because of the economic slowdown of the 1980s and the growing need of large companies to restructure and cut staff. The need to encourage small business is one of the few themes on which consensus reigns in France.

The Socialist government which has just been defeated in the polls came to power in 1981 on a ticket of boosting the power of larger companies. This was above all through nationalisation of some of the country's biggest industrial groups, which the new right-wing administration has pledged to reverse.

The Socialists also came up early against a tide of sometimes militant discontent from PMEs complaining about increased social charges, price controls and red tape.

Government moves since 1983 aimed at easing the lot of small business and encouraging company start-ups, plus a general improvement in the overall corporate climate have stilled the voices of protest.

The right-wing government now faces the task of putting into effect promises made during its period in opposition to continue furthering the lot of small and medium-sized employers.

Most controversially, the right has suggested easing constraints on companies which wish to lay off workers as part of an overall policy of deregulation aimed at making the economy more flexible and then boosting jobs.

The measure would certainly be *popular among small* patrons. But it remains to be seen whether it can be pushed through without inciting an upsurge of unrest from trade unions, which have been quiescent in the face of mounting unemployment and stagnating wage growth.

Former president Valery Giscard d'Estaing claimed in his latest book* that Mr Helmut Schmidt, the former West German Chancellor, had told him the real reason for France's economic problems was the need for would-be French entrepreneurs to fill 27 different forms if they wanted to set up a business.

The remark may have been apocryphal (and many of the constraints were brought in or enlarged by the Giscard Administration), but the Socialists have taken such warnings seriously.

A series of measures enacted during the past three years, most importantly the law of July 1984 aimed at encouraging "economic initiative," has attempted to allow companies to be set up within less than a month through cutting formalities. In addition, fiscal changes have been made to lighten financial burdens on nascent companies.

The Government has brought in regulations allowing unemployed people special incentives to start companies. A total of 70,000 businesses are believed to have been created this way in 1985, although many are probably in fragile health.

Steps have been taken to encourage venture capital support for company start-ups through funds from all the large French banks and investment institutions.

Rules allowing management buy-outs have also been simplified. After a sluggish initial response to the 1984 measures, buy-out are becoming increasingly common, with the largest example that by executives in the Sagem electronics group last year.

Statistics on company start-ups and on the overall health of the small business sector have been encouraging. According to the small business financing body, Credit d'Equipment des Petites et Moyennes Entreprises (CEPME), which has about FFr 100bn in loans outstanding to 215,000 companies, some 103,209 enterprises were set up last year (16.6 per cent more than in 1984) while business failures increased 7 per cent to 26,425.

Buy-outs

The figures have to be treated with caution since the total for start-ups includes a large number of companies which simply change their legal form or headquarters. Roughly 30 per cent of start-up companies are also thought to disappear—often without formally declaring liquidation—in their first two years.

Nonetheless, the overall pace of business reaction has accelerated after the drop in activity in 1981 to 1983, with the overall level returning to the more buoyant figures of the late 1970s.

Additionally, CEPME surveys point to a general renaissance of confidence among PMEs at the turn of the year, with two-thirds of patrons' companies registering an increase in production last year and expecting a renewed advance in 1986.

A further significant sign has been the emergence of greater regional business creation dynamism in the south and west—a symptom of the overall economic shift towards the regions which has been a growing feature of the last decade.

A great deal remains to be done to consolidate the position of PMEs. Large French companies remain reticent about encouraging spin-offs and redeployment of staff in their own businesses. Tax breaks on venture capital activities are still not sufficient, according to lobbyists, to encourage individuals to sink their savings into small, high-performing companies.

The Socialist Government has brought in a system of tax credits to boost research and development above all in PMEs, and state-funded research organisations are increasingly encouraged to open their doors to small business. But France is still not reaping the optimal harvest from passing on through small entrepreneurs the advances in technology in areas like the space or nuclear programmes.

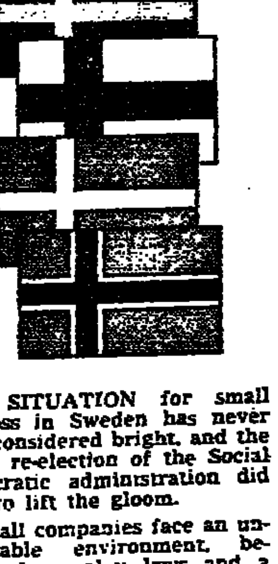
The main boost to PMEs will come if the return of the Right, allied to the fall in the dollar and in oil prices, brings overall economic revival. At least the small business community know that its well-being is now publicly recognised as firmly bound up to that of the country as a whole.

**Deux Francais Sur Trois-Flammerion.*

David Marsh

Scandinavia

Put off by paperwork



THE SITUATION for small business in Sweden has never been considered bright, and the recent re-election of the Social Democratic administration did little to lift the gloom.

"Small companies face an unfavourable environment, because of complex laws and a regulatory jungle," according to Mr Nils Lundgren, an economist at Pkbanken, the State-owned commercial bank.

According to a recent survey conducted by the Sifo Opinion Research Institute, over-regulation is considered the most pressing political issue in Sweden by the overwhelming majority of small businessmen with companies employing fewer than 20 people.

The same source reports that businesses have been reluctant to expand, even where opportunities exist, because more employees means more paperwork and higher costs.

A five-year study of some 60 small- and medium-sized businesses, by the Government's Board of Industry, reports a tendency among companies that sharply improved their results to lay off, rather than hire, people.

The study shows that, of 26 companies with industrial operations, seven went bankrupt and eight were bought out by bigger companies.

The export-led boom experienced by Sweden's multinational corporations after the late 1982 devaluation produced large cash reserves. Because of foreign exchange controls, the number of corporate takeovers of smaller independent businesses has climbed dramatically.

A major complaint in the sector has been high tax rates, including the so-called "wealth tax" levied on private funds tied up in investments in plant and equipment, and the difficulty in forming start-up capital.

"Wealth tax on working capital has definitely hamstrung companies, above all smaller ones which are growing," says Mr Gunnar du Rietz, an Economist at the Swedish Federation of Industries.

The number of bankruptcies has tripled in the past two years — although this has not prevented an even faster rise in the establishment of new firms.

The Social Democratic Government has made some efforts to improve the situation, recognising the role that small businesses play in the economy. There has been a programme of industrial growth and renewal, which includes SKr 136m in special aid for small business and high technology development.

The State-owned Investor Ingsbanken has also issued some SKr 12bn in high-risk loans to small companies, while other Government agencies offer guarantees on such loans.

But according to Sifo, only 15 per cent of respondents thought State aid an important contribution, while a large proportion felt they would be better served by deregulation and an atmosphere of free competition. A more welcome policy shift was the decision last September to increase the level of turnover which triggers certain detailed reporting requirements.

Among the recurrent complaints is the lack of opportunity in the public sector, which in Sweden soaked up 67 per cent of GNP last year.

State and municipalities have kept a tight grip on possibilities for private business in the expansive service industries, while the number of workers in the public sector has grown from one-in-eight to one-in-three over the past decade. Despite some recent easing, Swedish entrepreneurs also face some of the highest interest rates on bank borrowing in Europe, and they are receiving a more cautious reception in the venture capital markets.

In Finland, where small businesses account for more than 40 per cent of the workforce, there have been a number of important improvements in the regulatory environment and in increase in the number of start-ups.

Here, too, the high tax rate which prevails throughout Scandinavia has tended to discourage capital formation; but the Government has made improvements in the basis for calculating corporate and property tax which were welcomed, and is investigating further changes.

A small OTC market has been started by banks, but after just over a year has yet to make itself felt as a significant potential source of new capital. The real interest rate on bank loans has declined following two cuts in the discount rate, however.

Both Denmark and Norway, under Conservative governments, have enjoyed a number of important changes in the regulatory and tax climate. In Denmark, for example, legislation has been passed easing the formation of start-up capital.

David Brown

UK Budget

Modest package of helpful benefits

SMALL BUSINESSMEN got much better treatment from last month's Budget than most of the organisations responsible for promoting their cause had expected.

If the Budget overall was intended to spread the limited amount of largesse at Chancellor Nigel Lawson's disposal among as many beneficiaries as possible, the small business sector is no exception. It contained small measures of help for practically every type of entrepreneur, ranging from the one-man band through to the proprietor of a family company wondering how to hand control to his children.

If there is a criticism, it is that the total package, while full of appealing elements, did not add up to much. "It's all good stuff," says Mr Stan Mendham, chief executive of the Forum of Private Business. But, he adds: "All of these things are like little seeds and there is not enough in it to allow us to take a real leap forward."

People starting in self-employment will pay a little less tax, get cheaper government-guaranteed loans, and find it easier to get help from the Manpower Services Commission thanks to the Budget. The improvement in their tax position comes from the one percentage point cut, in the basic personal tax rate which applies to small unincorporated businesses.

Meanwhile, borrowers on the Loan Guarantee Scheme benefit from the halving in the premium charged for LGS loans from 5 per cent to 2.5 per cent. The premium applies to the 70 per cent portion of LGS loans guaranteed by the Government, so it comes down to 1.75 per cent if spread out over the whole loan.

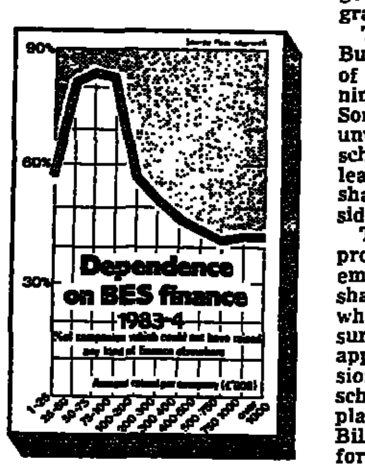
LGS loans should also become more readily available. Banks were unwilling to push the scheme before the Budget, because they feared it was going to be axed as a result of higher-than-expected losses and dwindling demand. But now that its life has been extended for three years, they are less wary about adding to their LGS exposure.

More help for the smallest start-ups comes from the MSC in the shape of its Enterprise Allowance Scheme, which provides a £40 per week subsidy for people forming their own ventures. The number of EAS places has been enlarged from 65,000 to 100,000 annually, which can only be good news for anybody queuing to get an allowance.

The Budget also removed a much criticised anomaly in the tax treatment of EAS subsidies. The allowance used to be treated as if it were business income, which meant that recipients often ended up paying tax for three years on profits which included the allowance. Now the subsidy will only be taxable for the year in which it is paid, a change which applies to everybody currently receiving an allowance.

Moving up the small business scale, incorporated companies also get a small tax bonus, thanks to the one percentage point cut in the small companies corporation tax rate to 29 per cent. This will save £1,000 for a business making £100,000 pre-tax in the coming fiscal year.

Small enterprises should also find it easier from now on to raise equity finance under the Business Expansion Scheme, which provides income tax relief for investments in unquoted companies—unless they happen to be hotels, wine shippers or antique dealers.



The abolition of Capital Gains Tax on the first disposals of BES shares by their original holders should do much to encourage investors to increase their exposure to riskier companies with higher potential for capital appreciation than the asset-rich businesses which have been so popular in the past.

Underpinning this shift in focus is the withdrawal of BES relief for any new business with more than half of its net assets in land or buildings, unless it is raising less than £50,000 per year under the scheme. The new exclusions also extend to companies involved in holding goods of a kind which are usually collected as investments, like fine wine or paintings.

Ship charterers are being brought into the scheme so long as they are entirely UK registered and owned. So are companies with 90 per cent subsidiaries, including foreign ones. Formerly, no groups with subsidiraies were allowed into the BES.

The Chancellor issued a strong message that, from now on, there will be no hiding place for ventures which attempt to abuse the BES as a tax shelter. He has taken the power to make changes in the BES rules by stautory instrument, which means that abuses can be stopped just as soon as they emerge, rather than getting a lucrative period of grace until the next Budget.

Turning outside the BES, the Budget has provided a degree of comfort to proprietors running employee share schemes. Some businesses have been unwilling to introduce such schemes in case employees who leave the company sell their shares to potentially hostile outside investors.

The usual solution to the problem has been to force employees to agree to sell their shares back to the company when they leave, but that means surrendering Inland Revenue approval for the tax concessions that make employee share schemes attractive in the first place. The forthcoming Finance Bill promises to open the way for employers to set conditions on the disposal of shares issued under employee share schemes, but it remains to be seen how far these will go.

Meanwhile, the Budget produced an important improvement in the tax treatment of any business which wants to give its shares away to a new management team. The abolition of Capital Transfer Tax on gifts made within seven years before the death of the donor will particularly benefit old established family companies whose proprietors want to pass ownership down to the younger generation. Until last month, such companies all too often faced the threat of having to be broken up or sold to pay the tax bills arising from such capital transfers.

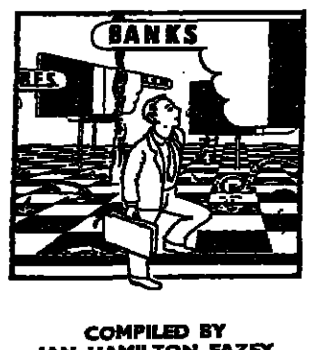
The Budget also included a scattering of much smaller measures which could nevertheless be useful to many small businesses. The introduction of the New Workers' Scheme, for instance, gives a £15 per week subsidy to businesses taking on youngsters aged between 18 and 19 at wages of £55 per week, or £65 per week for 20-year-olds. This will help anybody who wants to take extra unskilled labour in the future.

At the top end of the wages scale, there is a small reduction in paperwork thanks to the abolition of form P11D (A), which requires employers to list the names and National Insurance numbers of higher paid staff and directors not receiving non-salary benefits — though anecdotal evidence has it that few people took any notice of the form in any case.

There will also be less paperwork for some, because of the rise in the annual turnover level at which businesses must register for Value Added Tax from £19,500 to £20,500. This is in line with inflation, but a disappointment for a majority of small business lobbyists who were pressing for a £100,000 VAT threshold. Several Government Ministers would like to help them, but European Community law prevents them increasing the VAT threshold any further.

William Dawkins

Useful contacts and addresses



COMPILED BY IAN HAMILTON FAZEY

For details of your Local Enterprise Agency:

Business in the Community, 227A City Road, London EC1V 1LX. Tel 01-253 3716.

Scottish Business in the Community, Eagle Star House, 25 St Andrew Square, Edinburgh EH2 1AF. Tel 031-556 9761/2.

EXPORTING:

British Overseas Trade Board, 1 Victoria Avenue, London SW1H 0ET. Tel 01-215 7877.

Technical Help for Exporters, Maylands Avenue, Hemel Hempstead, Herts. Tel 0442-3111.

RURAL INDUSTRY:

Council for Small Industries in Rural Areas (Cosira), 141 Castle Street, Salisbury. Tel 0722-336255.

The Development Commission, 11 Cowley Street, London SW1P 3NA. Tel 01-222 9134.

BANKS AND THEIR PUBLICATIONS:

Barclays Bank, 54 Lombard St, London EC3. Tel 01-626 1567.

Lloyd's Bank, 71 Lombard St, London EC3 3BS. Tel 01-626 1500.

Midland Bank, Poultry, London EC2. Tel 01-726 1000.

VENTURE CAPITAL:

British Venture Capital Association, c/o Arthur Andersen and Co, 1 Surrey St, London WC2R 2PS. Tel 01-836 5702.

FRANCHISING:

The British Franchise Association, Franchise Chambers, 75a Bell St, Henley-on-Thames, Oxon RG9 2BD. Tel 0491-578049.

SMALL FIRMS SERVICE:

Dial 100 and ask for Freefone Enterprise.

GOVERNMENT SCHEMES:

Department of Trade and Industry, regional Support, Inward Investment and Tourism Division, 66-74 Victoria Street, London SW1E 6SJ. Tel 01-212 0814. Regional offices in Newcastle-upon-Tyne, Manchester, Liverpool, Leeds, Birmingham, Nottingham, London, Bristol (see local telephone directories).

REGIONAL INFORMATION:

South West Industrial Development Office, Phoenix House, Notte Street, Plymouth PL1 2HS. Tel 0752-21891.

North of England Development Council, Bank House, Carliol Square, Newcastle-upon-Tyne NE1 6XE. Tel 0632-610026.

North West Industrial Development Association, Brazenose House, Brazenose Street, Manchester M2 5AZ. Tel 061-834 6778.

Yorkshire and Humberside Development Association, Longfield House, 35 Headingley Lane, Leeds LS6 1RX. Tel 0532-744033.

Devon and Cornwall Development Bureau, County Hall, Exeter, Devon EX2 4QD (Tel 0392-53535); or County Hall, Truro, Cornwall TR1 3BB (Tel 0872-71324).

West Midlands Industrial Development Association, Chantry House, Coleshill, West Midlands B46 3BP. Tel 0675-62577.

Scottish Development Agency, 120 BothwellStreet, Glasgow G2 7JP. Tel 041-248 2700.

Industry Department for Scotland, Alhambra House, 45 Waterloo Street, Glasgow G2 6AT. Tel 041-248 2855.

Highlands and Islands Development Board, Bridge House, 27 Bank Street, Inverness IV1 1QR. Tel 0463-234171.

Welsh Office, Industry Department, New Crown Buildings, Cathays Park, Cardiff CF1 3NQ. Tel 0222-825111.

North Wales District Office, Government Buildings, Dinerth Road, Colwyn Bay, Clwyd LL28 4UL. Tel 0492-44261.

Winvest (Inward Investment), Pearl House, Greyfriars Road, Cardiff CF1 3XX. Tel 0222-32955.

Mid Wales Development, Ladywell House, Newtown, Powys SY16 1JB. Tel 0686-26965.

Industrial Development Board for Northern Ireland, IDB House, 64 Chichester Street, Belfast BT1 4JX. Tel 0232-34488.

Industrial Development Board for Northern Ireland, Ulster Office, 11 Berkeley Street, London W1X 6BU. Tel 01-493 0601.

Local Enterprise Development Unit (LEDU), Ledu House, Upper Galwally, Belfast BT8 4FY. Tel 0232-691031.

ENTERPRISE ZONES, GENERAL INFORMATION:

Department of the Environment, 2 Marsham Street, London SW1P 3EB. Tel 01-212 7158.

NEW TOWNS, GENERAL INFORMATION:

Commission for the New Towns, Glen House, Stag Place, London SW1E 5AJ. Tel 01-828 7722.

URBAN DEVELOPMENT CORPORATIONS:

London Docklands Development Corporation, West India House, Millwall Dock, London E14 9TJ. Tel 01-515 3000.

Merseyside Development Corporation, Royal Liver Building, Pier Head, Liverpool L3 1JH. Tel 051-236 6090.

EUROPE:

Liaison Office for the UK, European Investment Bank, 68 Pall Mall, London SW1Y 5ES. Tel 01-839 3351.

Commission of the European Communities, Information Office, 8 Storey's Gate, London SW1P 3AT. Tel 01-222 8122.

European Social Fund Unit, Department of Employment, Caxton House, Tothill Street, London SW1H 9NF. Tel 01-213 7627.

MISCELLANEOUS:

British Steel Corporation (Industry) Ltd, NLA Tower, 12 Addiscombe Road, Croydon CR9 3JH. Tel 686 0366.

English Estates, St George's House, Kingsway, Team Valley, Gateshead, Tyne and Wear NE11 0NA. Tel 0632 878941.

Department of Trade and Industry. Regional office telephone numbers for advice on innovation, investment, exports and other help: London 506181, north east 0632 324722, 01-214 4021, east Midlands 0602 [illegible], north west 061-236 2171, south east 01-730 [illegible], south west 0272-272666, west Midlands 021-632 4111, Yorkshire and Humberside 0532-443171, Scotland 041-248 2855, Wales 0222-825111, Northern Ireland 0232-233233.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday April 1 1986

Programming in the right credit rating under Baker plan

IN ALL THE brouhaha about the Baker plan for easing the developing country debt crisis, there is one worry for both the World Bank and the Inter-American Development bank that gets relatively little public attention, writes **Peter Montagnon in San Jose.**

This is that their credit standing on world bond markets could suffer if they are forced to borrow billions of dollars more to finance their increased lending to the needy debtors of Latin America.

The concern is not just one of volume alone. The Baker plan assumes that the two banks will switch their attention more closely to programme lending rather than funding for specific development projects with a well-defined rate of return. Without the right safeguards that could mean that the quality of their assets declines, dragging their credit rating down with it.

Already in Seoul when the Baker plan was launched, Mr Eugene Rotberg, World Bank treasurer, warned of the danger that his institution could be perceived in the marketplace as simply providing balance of payments support for the debtors.

Last week in San Jose, Costa Rica, Mr Henry Costanzo, who heads the finance department of the Inter-American Bank, voiced a similar concern. In this case, however, the argument was more moderate.

Much depends, he said in an interview at the bank's annual meeting, on the degree to which the switch to programme lending is implemented in practice. On the present score it looks as though about 20 to 25 per cent of new Inter-American Bank lending under the Baker plan will be programme-related. That proportion "will not be of concern, though anything more might be."

Partly under the impact of the Baker plan, it is already clear that some big changes are likely in the bank's approach to the markets as its borrowing volume rises over the next few years.

The amount it will need cannot be defined as yet as this depends on the size of the bank's next capital increase, now expected to be agreed at a meeting of the governors's committee in Buenos Aires in May. For this year, however, borrowings are expected to hit a new record of \$2.6bn compared with \$2.3bn in 1985.

Also, at mid-year the bank is to consider a change in its lending rate formula that would entail a shift to a floating interest rate along the lines already practised by the World Bank.

That could bring the Inter-American Bank to floating rate capital markets for the first time, an innovation for an old-fashioned borrower that now concentrates on fixed rate bond markets and, unusually for these days, does little in the way on swaps.

In some ways the Inter-American Bank's borrowing programme presents an incongruous picture. Its borrowings jumped 32.4 per cent last year at the same time that its loan commitments fell by \$500m to \$3.06bn and net disbursement slipped by \$120m to \$1.73bn.

This has resulted in a sharp increase in its liquidity to \$2.61bn from \$2.38bn at the end of 1984.

Paradoxically one aim this year is to increase the liquidity further so that it reaches the established target level of 50 per cent of undisbursed loan commitments. At the end of last year the level was 43 per cent.

Another factor behind last year's results was the unexpected way in which loan disbursements slowed down. If that happens again this year the total borrowing requirement of the bank could still be cut.

Already Mr Costanzo says he has raised around \$1bn of this year's requirement. Bringing the borrowing forward was not so much a deliberate decision because interest rates have reached their lows.

Rather it was a response to the infectious enthusiasm which has made the bond markets so receptive to new paper this year.

INTERNATIONAL BONDS

Liberalisation moves sustain Euroyen buoyancy

EUROYEN bond issuing houses have enjoyed a bonanza in the past month, and last week was no exception, writes **Clare Pearson in London.**

Though the four deals launched, totalling Y110bn, all went fairly slowly amid pre-Easter lethargy among investors, the sector is further establishing itself with the help of continuing liberalisation by the Japanese authorities. Some of these measures take effect today.

Its strength has been buoyed by the yen's appreciation and by investors' desire to reduce their exposure to the falling dollar. Though there has been concern about the implications for the Japanese economy of the yen's unbridled rise, there is now a feeling that the exchange rate has stabilised at around Y180.

This has fuelled expectations of a further reduction, perhaps a full point, in the Bank of Japan's 4 per cent discount rate. As in many other countries, falling rates have made for periodic widening of spreads between the domestic and Eurobond markets, creating swap opportunities.

The yen's total share of new borrowings in the international bond markets is increasing rapidly. About Y2,460bn were issued last year in the Euroyen and samurai markets, more than double the previous year's total.

Continuing expansion of the Euroyen sector is expected to cause a corresponding decrease in the proportion of samurais, the traditional instruments for foreign borrowers seeking yen-denominated debt. The volume of new samurai issues so far this year has amounted to about Y425bn while the volume of Euroyen issues has amounted to Y769bn.

Measures liberalising the Eurobond market have made issuing procedures in the domestic market seem unwieldy.

First, there is the simple cost advantage – quite apart from the gap between Euroyen and samurai yields – in that fees on Euroyen bonds are lower than those on samurai bonds. On a 10-year issue, the cost of issuing a samurai bond is likely to be about 20 basis points higher.

Second, the Euroyen market provides significant advantages in the matter of arranging swaps since, as samurai bonds must be filed for registration one month in advance of issue, swap opportunities may often disappear before launch. Japanese bankers say this had led some intending samurai issuers to switch to issuers of Euroyen bonds.

EUROMARKET TURNOVER
Turnover (\$m)

Primary Market	Straights	Conv	FRN	Other
US\$	6,339.9	0.4	261.3	328.5
Prev	4,753.4	28.7	1,536.7	309.6
Other	2,214.9	0.2	224.7	128.9
Prev	2,052.3	0.3	743.3	155.5
Secondary Market				
US\$	31,578.0	1,262.4	10,679.6	3,208.2
Prev	29,003.7	1,486.0	14,622.1	3,011.6
Other	14,382.2	188.9	1,986.6	3,325.5
Prev	14,630.1	194.1	2,192.9	3,383.7

	Cedel	Euroclear	Total
US\$	16,047.8	37,810.5	53,858.3
Prev	16,458.0	38,493.8	54,951.8
Other	11,856.3	10,595.5	22,451.8
Prev	12,593.2	10,759.0	23,352.2

Week to March 27 1986 Source: AIBD

It is estimated that about 90 per cent of Euroyen bonds are currency swap-related. With Japanese financial institutions scrambling to act as swap counterparties, there seems no reason to suppose that the remarkable volume of these deals launched in the past few weeks need abate.

The samurai market, however, still has one advantage over Euroyen in that samurais can be placed at any time after pricing with Japanese investors and are not subject to a "lock-up" period.

Until now the lock-up period on Euroyen issues has been longer than that applying in the Eurodollar bond market. From today, however, the 180-day lock-up period will be reduced to 90 days. Since this reduces the risk of banks incurring losses arising from short-term funding costs being higher than returns on Eurobonds, this should further increase the attractiveness of the market.

Another liberalising measure which takes effect today is permission for single A-rated companies to issue Euroyen bonds. While this could potentially cause congestion in the market, banks will be more ready to take issues on their books because of the shorter lock-up period.

Bankers say the final establishment of the Euroyen market on a scale to rival that of the Eurodollar market depends not on a flurry of corporate issues but on further large deals for sovereign and supranational names.

The Y80bn issue for Canada, launched in February, set a precedent for liquidity in Euroyen issues and introduced new investors to the market. These were central banks and large investment institutions which had previously confined their investment in yen-denominated bonds chiefly to Japanese government stocks.

Elsewhere in the Eurobond market the high-yielding sectors continued to attract demand, and the week saw the reappearance of new issues of fully couponed Australian dollar bonds. As the week ended, all sectors appeared buoyant.

Some concern over sterling and a heavy volume of tightly priced new issues dampened the enthusiasm of Eurosterling investors early in the week. By Thursday, however, these clouds seemed to have dispersed, and prices rose a point during the day.

The Eurosterling market showed a further sign of coming of age with the launch of a 21-year bond for Land Securities, the British property company. The bond bore a coupon of 9½ per cent and was priced at 98¼ to give a yield at issue of 48 basis points over the 13½ per cent Treasury Stock 2004/08. This was up the lowest margin so far on long-dated Eurosterling bonds.

Although at first there was resistance to this coupon level, the bond finished the day trading comfortably inside its fees.

● **Alexander Nicoll writes:** The strength of international credit markets boosted Eurobond issues to an annual pace of \$172bn in the first quarter of 1986, well above the 1985 total of \$134bn, according to figures compiled by IDD Information Services.

The quarterly total of \$42.9bn included \$25.5bn in dollars, but the yen rose to second-placed currency of issue with \$4.9bn equivalent, followed by the D-Mark with \$4.4bn, sterling with \$3.1bn, the European Currency Unit with \$1.6bn and the Australian dollar with \$1.1bn.

Though quarterly totals are not a reliable guide to a full year's performance, the first three months produced some interesting moves in the league table of houses acting as issue bookrunners.

Deutsche Bank led the pack with \$4.5bn, jumping from fifth position in the 1985 full-year figures. Credit Suisse First Boston, accustomed to keeping a wide gap between itself and its competitors, was beaten into second place with \$3.9bn.

Elsewhere, there were some marked declines for US houses such as Merrill Lynch, down from second to 10th, and Morgan Guaranty, down from third to 15th.

Japanese firms did well. Nomura Securities was up from eighth to third with \$2.8bn, and Daiwa Securities and Nikko Securities both registered sharp climbs.

Carson Pirie set to resist \$347m offer

BY TERRY DODSWORTH IN NEW YORK

CARSON Pirie Scott, the Chicago retail group, yesterday promised an all-out fight against a \$347m bid from a group of local investors aiming to assemble a new stores group in the city.

The offer, from Baytree Investors, underlines the increasing takeover activity in the retail shopping sector in the last year in the US. Baytree itself recently acquired Wieboldt Stores in Chicago and has indicated it is interested in further acquisitions in the field.

Carson described the Baytree offer, worth \$35 a share in cash or securities, as an attempt to acquire the company on a "bust-up, bootstrap basis" and immediately responded by launching a defensive poison pill plan designed to make the company more expensive to a hostile bidder.

About half of Carson's sales, which reached \$1.3bn in the year to the beginning of February, are in retailing. The company made profits of \$18.4m or \$1.86 a share last year.

The board of Fruehauf, one of the leading US manufacturers of truck trailers and cargo containers, is to meet this week to consider a \$968m bid for the company from Mr Asher Edelman, the New York investor who acquired the Datapoint computer group last year.

The indications are that Fruehauf will reject the bid, which Mr Robert Rowan, chairman, described as "grossly inadequate."

W. Acquisition, the investor group seeking control of Warnaco, the Connecticut clothing company, has increased its cash offer to \$40 a share from \$36 a share, in a move aimed at undermining Warnaco's defensive recapitalisation manoeuvres. The new bid, worth \$387m, is contingent on financing, but W. Acquisition is confident the funds can be raised.

The bidding contest for control of Alamito, the Arizona electricity wholesaler, is due to come to a climax this week when shareholders are expected to decide on four rival offers from the company's own management and three outside groups of investors.

The face value of the offers range between \$320 and \$438m but they differ widely in the mixture of cash and paper on offer.

USAF decision on trainer hits Fairchild

FAIRCHILD INDUSTRIES, the New York aircraft manufacturer and aerospace components group, has suffered a severe blow from the cancellation of government funding for its planned new T-46 trainer, writes **Terry Dodsworth in New York.**

The air force decision follows a long period of doubt about the project, which has already incurred cost overruns of about \$100m. It also comes only a few months after the company decided to withdraw from its joint venture with Saab-Scania of Sweden for a new small commercial aircraft, the SF-340.

Fairchild shares dropped sharply in initial trading yesterday, falling by \$1¼ to \$9¾. Earlier this month the group's accounts, which showed a loss of \$195m from continuing operations, were qualified by its auditors on the grounds of "uncertainties" over the T-46 programme.

About 3,000 jobs could be at stake in the trainer project, and the company's hopes of continuing with it appear to depend on Congressional efforts to keep the programme alive to protect employment on Long Island.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Banque Worms returns to black

By Paul Betts in Paris

BANQUE WORMS, the French investment bank owned by Union des Assurance de Paris (UAP) the country's largest insurance group, staged a recovery last year with a profit of FFr 20m ($2.8m) after a loss of FFr 301m a year earlier.

The investment bank, among French banking institutions most troubled by nationalisation, was taken over in 1984 by the state UAP group, which has injected substantial fresh capital into it to support its recovery. The upturn was aided by last year's decline in interest rates which helped boost its activity by 15 per cent.

The turnround also reflects cost-cutting efforts which kept the increase in its general costs to 3.9 per cent last year. Staff was reduced from 1,900 people to 1,736 through early retirements and other voluntary measures.

Operating profits last year reached FFr 301m compared with FFr 200m the year before. Provisions amounted to FFr 276m last year compared to a peak FFr 727m the year before which accounted for the large net loss.

20% advance at Buehrmann Tetterode

By Laura Raun in Amsterdam

BUEHRMANN - TETTERODE, the Dutch paper products group, lifted net income by 20 per cent to Fl 57.34m ($22m) in 1985 after further cost-cutting measures. The dividend was raised by Fl 1.50 to Fl 5.20.

Based on the first months of 1986, the company expects a further improvement this year although the extent of help from the weaker dollar and lower oil prices is not clear.

The group indicated that it is now in a position to began expanding core activities after years of streamlining to improve efficiences. The Far East and the US are viewed as particularly promising areas.

Total sales edged up only 2 per cent to Fl 3.25bn in 1985 as some loss-making activities were ended. Turnover fell 6 per cent in the office products division, where toy trading activities in France and most book publishing operations were halted.

Malay broker suspended over forward share deal

BY WONG SULONG IN KUALA LUMPUR

RAZAK AND RAMLI, a leading Malay stockbroking company in Kuala Lumpur, yesterday became the first member of the Kuala Lumpur Stock Exchange to be suspended from trading because it failed to honour share purchase contracts.

According to KLSE officials, the company failed to honour 650,000 Roxy shares, worth 3.6m ringgit (US$1.4m) presented by Kimara Securities, based in Seremban.

The major shareholder of Razak and Ramli is Mr Abdul Razak Bin Sheikh Mahmood, who was KLSE chairman until last December, and is currently believed to be overseas.

Five out of the 51 KLSE member firms are known to be in difficulties over forward contracts, which came to light after the collapse of Pan Electric Industries in Singapore last November.

Apart from Razak and Ramli, two other companies — Y. K. Fung, and Noone and Co—are under supervision of the KLSE.

Mr Nik Mohamed Din, the new KLSE chairman, has tried to play down the impact of forward contracts on Malaysian stockbrokers, saying the amount of such contracts was now less than 10m ringgit.

However, it is understood that this referred to contracts between Malaysian brokers, and does not include contracts they have with their Singapore counterparts, estimated at over 100m ringgit.

The KLSE is holding an EGM this Sunday to try to approve a 50m ringgit lifeboat fund for troubled brokers, but the proposal is unlikely to get through as it requires 75 per cent approval of members present.

State buys Pan-Electric ships

THE SINGAPORE government yesterday acted to acquire 22 vessels for S$35m (US$16m) from the collapsed Pan-Electric Industries in an attempt to save a "national asset."

The government-owned Temasek Holdings and its 74 per cent-owned publicly-listed subsidiary Sembawang Shipyard have formed a joint venture, Sembawang Salvage to purchase nine salvage and towage craft and 13 support craft and equipment from Selco Salvage, Pan-Electric's marine salvage subsidiary.

Selco is the world's second largest marine salvage operation after the Smit Tak group of Holland, owning over 100 vessels.

The provisional liquidators of the Pan-Electric group, which also owns property and a hotel, had recommended the sale of Selco because of the unpredictability of the salvage business, which it termed "either feast or famine." It had no business cycle and the costs of keeping the Selco fleet on active standby was very high and a considerable drain on cash resources, Price Waterhouse stated in its report to creditors.

The Selco group contributed $21m worth of profits in 1984 but suffered an $11m loss in the first 10 months of 1985. Its assets were valued at $143m by Price Waterhouse, which stated that Selco should sell 41 vessels and the rest of Pan-Electric's marine and shipbuilding and repair operations be rationalised. All the marine operations should be transferred to Selco, repackaged and sold as a going concern to fetch a better price.

Temasek said it would divest its stake when the new company gets on a proper footing. Temasek said its main concern was to make the company profitable. Its participation was to save the salvage operations, whose services could be exported.

OCBC upset in second half

Oversea-Chinese Banking Corporation (OCBC), the largest Singapore bank, yesterday reported a 12 per cent fall in net profits, from $96.8m to $85.7m (US$39.5m) at the bank itself while the group registered a 16.5 per cent slide from $121m to $101m, our Singapore Correspondent writes.

OCBC blamed its poor results on the difficult business conditions prevailing in the second half-year, when the bank was affected by narrower interest margins, lower investment dividends and more provisions for possible loan losses.

Second-half profits at the bank fell 25 per cent from $46.7m to $35.1m,

The final dividend is reduced to nine cents a share, bringing the total for the year to 15

Keppel Shipyard losses more than double for year

BY CHRIS SHERWELL IN SINGAPORE

ANOTHER TOUGH year at Keppel Shipyard, Singapore's troubled state-owned marine group, has pushed its after-tax losses to S$44.1m (US$20.3m), more than double the S$20.1m for 1984, as turnover shrunk almost 24 per cent to S$616m.

The results reflect a deepening of the global shipping recession as well as the continuing burden of the group's borrowings, despite a reduction in interest expenses.

At the operating level, the group reversed from a S$78m profit in 1984 to a S$1.2m loss. Interest expenses of S$52m contributed the bulk of the group's losses, though lower than the S$84.6m previously.

There was also an extraordinary loss of S$81.3m. This was mainly a final write-down in ships' value

In a separate statement accompanying the results, Mr Sim Kee Boon, Keppel's chairman, said he was confident the group could achieve significantly improved results in 1986 and return to the black in 1987.

Results were also published for Keppel's two quoted subsidiaries, Straits Steamship and Far East Levingston Shipyard. A good second half performance helped Steamers produce an after-tax profit of $1.2m, a major improvement on last year's S$19.7m loss.

Far East Levingston turn in S$9.6m profit after tax. This was down 68 per cent

Generale Bank stages strong recovery

By Paul Cheeseright in Brussels

PROFITS AT Generale Bank, the largest of the Belgian commercial banks, recovered sharply last year, but shareholders will be receiving only a modest increase in dividends.

Consolidated net profits at BFr 4.9bn ($97.8m) for the whole group were 133.7 per cent above the 1984 level—depressed by high provisions and write-offes—and 48 per cent down on 1983.

Bank ordinary shares attract a net dividend of BFr 235 against BFr 225 for 1984, it was announced yesterday.

Results have continued to improve this year. "They are certainly better, if not much better, than that of last year," said Count Eric de Villegas de Clercamp, the president, of the 1986 first quarter.

The bank is thus in a strong position when it returns to the market next month with its foreshadowed rights issue. This will raise between BFr 2.08bn and BFr 2.12bn depending on the final offer price.

The issue will be on the basis of one-for-six shares already held. The price will be set on the average market price for the first two weeks of April, reduced to take into account the 1985 dividend and a portion of the 1986 dividend, and a rebate of between 8 and 12 per cent. The calculation done at current prices would give an offer price of between BFr 4,750 and BFr 4,950 a share.

The group's consolidated balance sheet total last year rose 6.3 per cent to BFr 2,061bn. Growth would have been more substantial but for the depreciation of the dollar against the Belgian franc by over 20 per cent and the reining in of activities at European-American Bancorp, a New York associate. Losses at this bank cut into the 1984 profits at Generale Bank.

Although provisions and write-offes rose last year by 4.4 per cent to BFr 13.57bn, the rate of increase was markedly down on the 19 per cent recorded in 1984.

Gross profits were BFr 21.6bn and tax payments were BFr 2.7bn.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Restaurant Seibu ¶	50	1991	5	(4)	100	Nippon Kangyo Kakumaru	*
Chevron Corp. ‡	300	1996	10	8¼	100½	Deutsche Bk Cap. Mkts	8.175
LTCB Finance ‡	100	1993	7	8	100⅝	LTCB Int.	7.857
Norwest Corp. (a)†‡	100	1998	12	3/16	100	Merrill Lynch	–
Best Denki ¶	45	1991	5	(4)	100	Nikko Secs. (Europe)	*
Belgium ‡	300	1991	5	7⅞	101¼	UBS (Secs)	7.442
Denmark ‡	250	1993	7	7¾	100¼	UBS (Secs)	7.702
CANADIAN DOLLARS							
Quebec Urban Community ‡	28	1996	10	9¾	100	BIL	9.750
City of Quebec ‡	40	1996	10	9⅝	100½	Societe Generale	9.545
AUSTRALIAN DOLLARS							
Govt. Ins Office NSW ‡	50	1990	4	13	100¾	Bankers Trust Int.	12.749
Bayerische Hypotheken ‡	50	1990	4	13	101	Bank of America Int.	12.686
Kansallis-Osake-Pankki ‡	30	1991	4¾	13⅛	100⅞	CIBC Ltd.	13.001
SWISS FRANCS							
Restaurant Seibu **¶	50	1991	–	(2⅛)	*	UBS	*
Consol. Gold Fields ‡	165	1996	–	5⅛	100¼	UBS	5.092
General Elec. Cr. Corp. (c)‖‡	300	–	–	7¼	100	Credit Suisse	–
A/s Navi **†‡	50	1991	–	(b)	100	SBC	–
City of Quebec **‡	31	1991	–	4¾	99¾	Royal Bk Canada (Suisse)	4.808
ECUs							
Denmark ‡	250	1996	10	7⅝	100	Kredietbank Int.	7.625
STERLING							
Hanson Trust ‡	100	2006	20	10	100¼	Salomon Brothers	9.971
John Lewis ‡	50	2006	20	10⅛	100½	County Bank	10.191
BNP ‡	50	1991	5	9½	100⅜	S. G. Warburg	9.403
Land Securities ‡	100	2007	21	9½	98⅛	J.R. Schroder Wagg	9.712
Ford Credit Canada ‡	30	1993	7	9½	100½	Morgan Guaranty	9.399
GUILDERS							
EIB ‡	300	1996	10	6½	100½	Amro	6.431
FRENCH FRANCS							
Trusthouse Forte ‡	400	1991	5	8⅝	99¾	Societe Generale	8.688
LUXEMBOURG FRANCS							
World Bank ‡	1bn	1996	10	8	100	BIL	8.000
Swedish Export Cr. **‡	300	1991	5	8¼	100	BGL	8.250
Yamamura Glass **	300	1991	5	8⅛	(100)	Kredietbank Int.	*
YEN							
Coca-Cola ‡	30bn	1996	10	5¾	101	Nomura Int.	5.617
Federal Home Loans ‖‡	25bn	1996	10	7½	101½	Nomura Int.	7.284
EDF ‡	20bn	1991	5	5¾	101½	Nomura Int.	5.400
Norges Kommunalbank ‡	34.8bn	1999	8½	5¾	101	Daiwa Europe	5.728
Bank of China ‖‡	20bn	1996	10	7.2	101½	Nikko Secs.	7.111
Fannie Mae ‖‡	27bn	1996	10	7.2	101	Nomura Secs.	7.183

*Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ₵ With bond warrants. ‖ Currency-linked. (a) 3/16 over 6m Libor. (b) Equal to 6m Limean. (c) Coupon refixed after 10yrs. Note: Yields are calculated on AIBD basis.

Sip boosts net profit by 25% and pays more

BY JAMES BUXTON IN ROME

SIP, the principal Italian telephone utility which is controlled by the state holding company IRI, last year achieved a 25 per cent rise in net profits, which reached L232bn ($148m).

Total revenues increased by 15 per cent to L9,400bn. The company is to pay a dividend of L130 per ordinary share compared with a dividend of L100 per ordinary share in 1984.

Last year IRI and Stet, the telecommunications sub-holding company which has the majority control of Sip, began an operation to reduce the state's stake in Sip, which in the middle of last year stood at about 85 per cent.

By means of the sale of shares both to Italian and foreign investors, the Italian state's participation in Sip is now 66 per cent, and when the privatisation operation is complete, it will be down to 51 per cent.

The importance of Sip among Italy's telecommunications utilities is destined to increase when the Government launches a parliamentary bill for the sector.

Under the proposed legislation, Sip will obtain responsibility for all internal telephone services after the transfer to it of functions presently carried out by an agency of the ministry of posts and telecommunications.

Chairman of Union Carbide set to retire

MR WARREN ANDERSON, chairman of Union Carbide, said he will retire in November when he reaches the US chemical group's normal retirement age of 65, writes Paul Taylor, in New York.

In the past 15 months Mr Anderson has sprung to international prominence after the toxic gas tragedy at the group's Bhopal, India, plant. Just a few days ago Carbide proposed a tentative $350m out-of-court settlement of the tens of billions of dollars in law suits filed on behalf of the 2,000 victims and more than 200,000 injured in the Bhopal disaster.

INTERNATIONAL CAPITAL MARKETS & FINANCE

US MONEY AND CREDIT

Discount rate cut speculation as Fed policy unit meets

THE US Federal Open Market Committee (FOMC), the policy making body of the Federal Reserve meets today amid a renewed bout of discount rate cut fever on Wall Street.

Speculation about a further half percentage point cut in the US discount rate, currently 7 per cent, was a major factor in the bond market rally last week which drove long-term interest rates down to their lowest levels for almost nine years and helped short-term rates to return to 12-month lows.

Lower oil prices and further signs of disarray among Opec members, sluggish US economic numbers and an explosion of pent-up speculative retail and professional buying all helped fuel the rally last week.

The collapse of Opec's efforts to limit production was the immediate trigger for the rally last week, backed up by a 0.4 per cent decline in the February US consumer price index—the first decline since December—and lively retail demand in the Treasury auctions.

In response Treasury issue prices advanced each day last week ending the holiday shortened trading week with a spectacular 2½ point plus gain on Thursday. Overall Treasury bond prices advanced by four points or more with the Treasury long bond gaining almost six full points to close the week at 120½.

At that price the yield on the Treasury long bond dropped to 7.54 per cent, its lowest level since September 1977 and within 30 basis points of its late 1976 cyclical lows. Further price gains were registered in Tokyo trading on Friday with the US markets closed for the Easter holiday.

The scale of the latest phase of the rally is highlighted by the fact that the 9.25 per cent long bond price has now risen by more than 21 points while the yield has dropped almost two full percentage points since early February.

The $13.5bn mini-Treasury refunding last week — mandated once again by Congress' failure to raise the long-term debt ceiling — went well with the four-year notes yielding 7.28 per cent and the seven-year notes yielding 7.37 per cent.

The positive response to the seven-year note auction coincided with a renewed burst of speculation about a further cut in the discount rate, perhaps accompanied by another round of concerted interest rate reductions around the globe.

Today's FOMC meeting has served as a focus for this speculation and the Fed's open market operations in its wake will be watched even more closely than usual.

The consensus among senior Wall Street economists is that the FOMC meeting will set the stage for another Fed easing, eventually leading to a discount rate cut, probably within a month or two. The meeting will be attended by Mr Preston Martin, the Fed's vice-chairman, who has resigned but will be present in a non-voting capacity.

Wall Street economists argue that renewed signs of weakness in the US economy — including sluggish car sales and a 3 per cent increase in first-quarter real gross national product, coupled with falling producer and consumer prices and a stable dollar will allow the Fed greater room for flexibility.

Add to this the problems of the US energy and farm sectors and some, like Mr Philip Braverman of Briggs Schadle, believe the case for further Fed easing is overwhelming.

"The Fed is likely to cut the discount rate to 6.5 per cent within the next month or so, producing a 6.75 per cent to 6⅞ per cent funds rate," says Mr Braverman.

Like other senior economists Mr Braverman does not believe Mr Martin's departure from the Fed lessens the prospect for easing.

Indeed, noting the differences among FOMC members over the February vote on the last discount rate cut, Mr Frank Mastrapasqua of Smith Barney, says: "The imminent departure of Mr Martin is likely to lessen the confrontational prospects at the upcoming meeting and may well consolidate the chairman's position."

The "votes of confidence" in the Fed chairman from the White House, reported last week, including an apparent invite to the Fed chairman to stay on for another term, appear to support this view.

In any case most analysts agree that the FOMC is likely to maintain its bias towards easing, and reduce the discount rate again if international factors, particularly the level of the dollar, remain favourable.

Fed watchers will be focusing on the funds rate in the immediate wake of the FOMC meeting.

Dr Henry Kaufman, the Salomon Brothers chief economist, notes in his latest "Comments on credit" that discount window borrowings have played second fiddle to Fed funds in Fed deliberations in recent months.

"This shift in Fed operating behaviour has been noticeable since the September Group of Five agreement to weaken the value of the US dollar and was heralded by a coincidental change in the language contained in FOMC policy directives," notes Dr Kaufman.

As a result he says this shift in tactics has made borrowing numbers a less reliable indicator of Fed intentions and, in practice, "this new flexibility has been evident in the pattern of open market operations, as well as in the behaviour of the Federal funds rate and discount window borrowing."

The upshot of the change in operating philosophy, according to Dr Kaufman, has been increased by open market operations, presumably aimed at a more stable Fed funds rate and wide fluctuations in discount window borrowings.

As such the change represents a further subtle shift away from money supply and borrowings targeting and a renewed re-emphasis on the funds rate—a trend already apparent for more than a year.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.35	7.39	7.92	9.91	7.10
Three-month Treasury bills	6.34	6.43	7.02	8.34	6.34
Six-month Treasury bills	6.32	6.49	7.01	8.75	6.32
Three-month prime CDs	7.18	7.20	7.95	8.85	7.16
30-day Commercial Paper	7.25	7.15	7.80	8.70	6.95
90-day Commercial Paper	7.05	7.05	7.50	8.80	7.00

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100¼	(new)	7.32	(new)	(new)
20-year Treasury	117⅞	+ 5⅞	7.66	8.12	8.35
30-year Treasury	119½	+ 5	7.59	7.97	8.28
New 10-year "A" Financial	N/A	+ 1⅞	8.50	8.70	8.80
New "AA" Long utility	N/A	+ 2⅞	8.75	9.13	9.13
New "AA" Long industrial	N/A	+ 5⅞	8.63	9.13	9.00

Source: Salomon Bros (estimates).
Money Supply: In the week ended March 17 M1 rose by $800m to $638.4bn.

For this reason any shift in the funds rate from its current 7.25 per cent to 7⅜ per cent range will be taken as an indication on Wall Street as an indication of Fed policy.

Last week the Fed funds rate moved down slightly while other short-term money market rates were mixed. Treasury bill rates hit 12-month lows while CD rates were unchanged and commercial paper rates edged higher.

In the corporate markets the resumption of the rally helped dealers unload their heavy inventories built up by the unprecedented new issue volume of recent weeks.

According to First Boston figures $2.8bn in new corporate fixed income securities were brought to market last week, compared to $9.1bn the previous week.

Last week's corporate new issue volume brought the total for the first quarter to $51.2bn—almost four times the 1985 volume for the same period.

The somewhat lighter new issue volume last week was generally well received. Actively traded issues gained nearly a point, more than offsetting the previous week's declines caused by the supply glut.

Among the new corporate issues launched last week Bankers Trust sold $150m of zero coupon five-year notes priced to yield 12.264 per cent, Shawmut Corp sold $150m of 10-year 9⅞ per cent notes priced to yield 9.89 per cent, Ford Motor sold $300m of four-year notes priced to yield 7.931 per cent, R. J. Reynolds sold $250m of 30-year 9⅞ per cent bonds priced at par, and Philadelphia Electric sold $350m of 25-year 11 per cent bonds priced to yield 11.05 per cent.

Paul Taylor

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

† Perpetual.

Closing prices on March 28.

UK GILTS

Cash calls threaten trend to lower yields

WITH THE longer trading week the UK gilts market might have managed to trample down the 9 per cent yield barrier as quickly as it did the 10 per cent mark. As it was Good Friday intervened and left the FT Actuaries 25-year high-coupon yield tottering on the very brink at 9 per cent—150 basis points below where it stood this time a year ago.

Early in the week the market absorbed two out of three small tranches issued the previous Friday. Treasury 9 per cent 1994 ran out of 99¾, while Treasury 8¾ per cent 1997 was supplied at 97¾ before running out at 99⅞. The break-up of Opec's meeting in Geneva brought a sharp reverse and it was not until Thursday, the last trading day of the week, that the third taplet, Treasury 8 per cent to 2002-06 was exhausted at 93¼. The market ended the week with gains of about 1½ points.

Tuesday's bout of profit-taking which left the long end of the market 1⁵⁄₁₆ points lower in a day, could prove an ill omen for the coming weeks when the Government's partly paid pigeons come home to roost. With a £200m call due next Monday, and a further £905m the following week, there could be some pressure on cashflow, not helped by the impending British Telecom call.

More worrying, however, is the likelihood that investors may wish to bank their substantial profits on these highly geared stocks. Treasury 10 per cent 1993 dealt in £20 paid form has already risen to 30¼ since issue. Although the first call is only another £20, and the stock does not become fully paid until the middle of May, some brokers are still advocating a switch into neighbouring stocks.

In addition some brokers believe the stacking of calls in the coming month adds to the difficulty the gilts market will have in breaking through the 9 per cent yield barrier. Mr Ian Harwood of stockbrokers Rowe and Pitman argues that after an extremely good run from 10½ per cent, the market could find 9 per cent a much tougher obstacle.

He adds that world bond markets are highly vulnerable to a rebound in the oil price. It would be difficult to insulate longer UK gilts from this and he questions whether the market will believe that the 3½ per cent inflation rate forecast by the Government in this year's Budget for the fourth quarter of 1986 can be sustained through 1987.

In many other quarters of the market such thoughts are not being allowed to obscure the prevailing sense of optimism. But many analysts would be happier if they could perceive some substance to the monetary policy that is meant to sustain the Chancellor's inflation forecast.

Stockbrokers James Capel, for example, calculate tentatively that money supply figures to be published next week could show Sterling M3 rising by 1½ per cent in banking March, a 12-month increase of nearly 16 per cent.

The market may not take the Chancellor's target range of 11 to 15 per cent for Sterling M3 growth in 1986-87 very seriously: but it could be disappointed if the aggregate fails to achieve even this modest ambition.

Meanwhile the London money markets continue to point, though more cautiously than in previous weeks, to the lower bank base rates that the gilts market has already discounted.

George Graham

Charterhall 43% lower

Charterhall, oil and gas exploration and production company, saw pre-tax profits fall 43 per cent to £1.76m in 1985 against £3.07m earned in the previous six months.

The directors say that in view of the uncertainty in the oil market they are not recommending a dividend. Last time there was a single payment of 0.6p.

They add that the results reflect reduced income from the Buchan Field due to the shut-down for the installation of gas-lift equipment and the strengthening on the pound against the dollar.

Turnover was £11.09m (£8.17m) and operating profit came out at £2.94m (£3.4m). The pre-tax figure was struck after net interest payable of £1.16m (£442,000). After tax of £1.45m (£1.1m) earnings per 5p share came stated at £0.54p (3.45p).

The directors say that because of the expected downturn in the group's income in the present year and the general decline in industrial activity emphasis will be placed on appraisal drilling of existing offshore discoveries and further exploration onshore.

Oceonics pref. deferred

Oceonics, the marine and defence electronics group, is to postpone payments of some £160,000 due as a dividend on its cumulative preference stock on March 31. The company has, as yet, made no decision as to the future of its ordinary share dividend.

The £3m worth of 10.75 per cent redeemable stock was issued in 1983 to boost shareholders funds and to finance a series of acquisitions that took place in early 1984. Dividend payments are twice yearly—1985-86s first payment having already been made.

The diversification did not, however, produce the looked-for rise in profits and in April 1985 the group took the unusual step of putting itself up for sale. Disposals have followed although no one has stepped forward with an offer for the whole group.

In the six months to September, Oceonics lost £3.27m (against profits of £2.78m) and second half trading has not been sufficiently strong to enable a return to profits for the whole year.

Mr Nigel Allen, group chief executive, said that the board had been advised that it would be illegal, under Section 264 of the Companies Act, for a payment to be made on the preference stock given the current amount of net assets in relation to issued share capital and undistributed reserves.

Billam recovery continues

J. Billam, Sheffield-based precision sheet metal engineer, continued its recovery in the second six months of 1985 and for the full year returned profits of £232,263 pre-tax, compared with previous losses of £192,769.

A final dividend of 2.13p (1.4p) makes a net total of 3.53p, an improvement of 0.73p.

With profit margins low in the cutlery and giftware factoring divisions the directors decided to cease these operations.

The group has acquired for £200,000 cash Carr Lane Engineering Services, a Bradford-based distributor of engineering tools. In 1985 the company made pre-tax profits of £45,000.

Billam's turnover for 1985 rose from £1.5m to £2.04m. Tax took £65,895 (credit £15,874). There were also extraordinary credits of £41,341 (£114,915).

Earnings amounted to 11.1p per share, against previous losses of 11.8p.

Lionel Barber examines Turner & Newall's recovery

Concentrating on middle-tech

AT Turner & Newall, they still remember the black July day in 1982 when their once-dominant British engineering company was removed from the FT share index.

The shares were in free fall that year. Huge liabilities loomed as victims of its historic involvement with asbestos called in the lawyers. Sixteen banks, dissatisfied with the management's explanation of an upsurge in borrowings, approached the Bank of England.

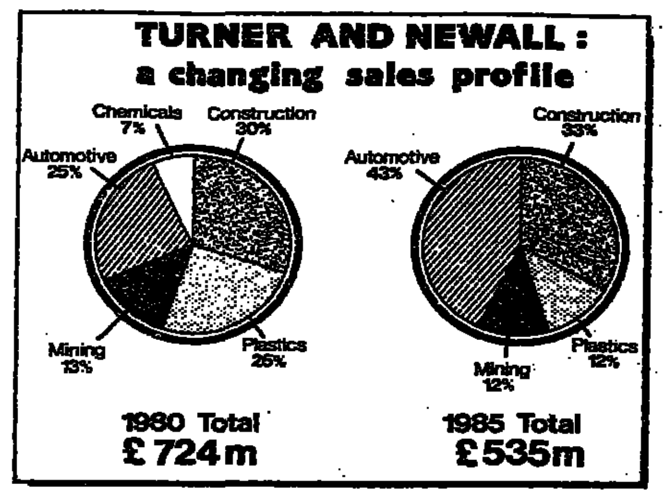
A financial lifeboat was launched. Chief pilot and chairman was — and still is — Sir Francis Tombs. Three and a half years later and several hundred thousand pounds richer, thanks to a lucrative contract with grateful banks and the Prudential, Sir Francis can claim to have steered Turner to full recovery.

Ten days ago, Turner produced pre-tax profits for 1985 up by 44 per cent at £39.6m on only marginally increased turnover of £535m. Earnings per share were up from 17.58p to 26.69p and the dividend was doubled to 5p.

To some extent, these impressive figures were boosted by a fall in asbestos-related disease claims. More significantly, the company was able to cut legal costs and recover money from insurers through the June 1985 agreement for handling claims in the US, the so-called Wellington agreement, named after its inventor, the former Dean of Yale Law School.

But Sir Francis and his chief executive Mr Colin Hope, appointed a year ago, can point justifiably to a turnround based on more than the vagaries of asbestos claims.

Sir Francis's recipe for recovery was to cut the size of the business with disposals helping to reduce gearing. Turnover in 1980 was £724m,



compared to this year's £535m. The most notable sale was the 63.5 per cent stake in Hunt Chemical, the US business which Turner had bought to buy itself out of asbestos trouble.

Overheads have been cut and the UK workforce has shrunk by half to about 9,000.

The second move was to split what Turner executives now admit was an amorphous business with a lack of proper financial controls into four independent sectors: construction, plastics, automotive components and mining. This led to a shift in direction. Automotive interests account for 43 per cent of sales in 1985, compared to only 25 per cent in 1980, while mining, mainly asbestos-related, has fallen from 13 per cent to 12 per cent.

Turner is still concentrating on rationalising. For example, the proposed merger this month of its UK building interests with the UK operations of the Belgian affiliate of Compagnie Financiere Eternit of Switzerland will reduce competition in a sluggish market, creating a combined business with an annual turnover of £60m. But the group is also looking at acquisitions.

Mr Hope, a Cambridge graduate recruited from Dunlop, where he ran the successful engineering activities before being submerged in tyres, describes Turner's present activities as middle-tech. It sounds defensive, but this is where he is looking to expand.

He reckons he could afford an acquisition costing more than £50m. In recent weeks, Turner shares have risen above 200p, capitalising the business at more than £200m, 10 times what it was worth in 1982.

Before the rise, any acquisition would have had to be paper. But Mr Hope says that Turner could resort to using its paper.

Turner has a strong automotive brand name in Ferodo, which makes brake linings and sealing materials in the UK, Europe, Africa and India. In 1985, automotive products accounted for £17.8m operating profits (£16.7m), figures which would have been better had it not been for difficulties in the North American spare parts subsidiary, Nuturn, which suffered from price-cutting in the market.

According to a recent circular by Quilter Goodison, brokers, 1986 should be good, particularly in the US. Mr Hope reckons there is plenty of growth left in this business, so it is a possible area for a predatory move.

Finding the right buy is part of a more general move to try to improve quality of earnings. They are still too reliant on relatively unstable markets in India and Africa, a legacy of an imperial past when, 50 years ago, Turner engineers sought their fortunes in the asbestos mines of (then) Rhodesia and sold the products in India.

In 1985 Africa contributed almost one-quarter of sales and 40 per cent of operating profits. It was a strong performance, largely due to reconsolidating the Zimbabwean subsidiary. It was omitted from the accounts at the end of 1982 after a disagreement with the Harare government over control. Mr Hope is now pleased with the indigenous management but problems persist in the company's Bombay plant, Hindustan Ferodo, which is beset by overmanning and low productivity.

He stresses that the future lies in the US and Europe which in 1985, excluding the UK, accounted for 20 per cent of sales and 12 per cent of operating profits.

Moving into these markets is part of Turner's effort to woo back the stock market. But it is a very cautious process. Having stepped out of the financial lifeboat only 18 months ago, Turner executives like being back on dry land.

NEW CAVENDISH ESTATES, property investor, reports turnover £369,476 (£480,350) and pre-tax profit £58,443 (£53,589) for half-year ended December 31, 1985. Second half expected to show improvement over previous period and maintained dividend forecast.

Valin Pollen full listing

BY RICHARD TOMKINS

Valin Pollen International, the financial and corporate communications group launched onto the Unlisted Securities Market in 1984, has announced that it will be moving to a full listing today.

The group has been one of the USM's faster-moving companies. Its shares, placed two years ago at 110p, had risen to a high of 675p before a two-for-one scrip issue last month. At Thursday's close they stood at 175p.

Mr Reg Valin, group chairman, said Valin Pollen had made its debut on the USM because its trading record was not enough for a full quote in 1984. "Having more than trebled in size since then, we believe it is now the right moment for the group to obtain a full listing."

He said the current year had started well and he was confident that the interim results, to be announced in early June, would not disappoint shareholders. Pre-tax profits for the year to September 1985 were £1.1m compared with £600,000 the year before.

Steel Burrill rises to £4.8m

Steel Burrill Jones Group, the USM-quoted insurance and reinsurance broker, increased pre-tax profits by 56.6 per cent in the 1985 year. They rose from £3.05m to £4.77m on turnover ahead by £1.84m at £7m.

The dividend is increased from 3.75p per share to 7p with a final payment of 5p (3p adjusted).

The directors say that brokerage continues to grow in the current year, and despite some pressure for further tightening of terms of trade and the adverse movement of exchange rates, the year has started well.

COMPANY NEWS IN BRIEF

COMMON BROTHERS, shipowner and operator, incurred heavier pre-tax losses of £26.27m (£20.08m) in the year to June 30 1985. Turnover improved from £25.32m to £40.28m. There was a tax charge of £276,000 (£838,000), but minorities provided a credit of £1.4m (£4.06m). Loss per 50p share jumped from 281p to 418p.

SHARPE & FISHER, builders merchant and D-I-Y operator, achieved turnover of £50.43m in 1985, against £45.92m. Earlier, it was inadvertently reported that the figures were £2.76m (£2.64m).

PLAN INVEST GROUP, USM personal financial planning consultancy, made turnover of £475,000 (£446,000) and pre-tax profit £234,000 (£206,000) in 1985. Final dividend 1.75p for total 2.5p net (1.65p). Directors confident about future.

JAYPLANT, USM-quoted plant hire contractor, reports taxable profits of £26,000 (£66,000) for six months to end-November 1985 on turnover of £468,000 (£755,000).

MARTONAIR International, the pneumatic control equipment maker which recently agreed terms for a takeover by IMI, reports pre-tax profits of £3.31m for the six months to end January 1986, against £2.65m. Turnover rose from £25.99m to £27.8m. The intended dividend of 2.5p (2.3p) per share will not be declared unless the offer does not proceed. Earnings came to 13p (11p).

TRADE INDEMNITY is increasing its dividend to 9.75p with a final up from 4.688p to 5.5p. Earnings per share improved from 27.43p to 67.31p. A two-for-one scrip is proposed. Premiums written for 1985 amounted to £65.5m (£57.67m), and profit on 1983 underwriting account was £5.08m against £1.17m for 1982.

H. YOUNG Holdings achieved a turnover of £6.24m and pre-tax profits of £589,579 in the six months to January 31, 1986. The figures compare with £4.64m and £313,036 respectively for the eight months to end-January 1985. The interim dividend is lifted from 1.05p to 1.2p net. Earnings per 25p share were 6.86p (6.62p). The company is engaged in distribution and financial services.

PRECIOUS METALS TRUST earned net revenue of £71,000 (£94,000) for six months to end-January 1986. Net asset value per share at period-end was 149.7p (127.8p). At March 26 the figure was 140.9p.

MORGAN CRUCIBLE Company announced that Morganite Ceramic Fibres, a 60 per cent owned subsidiary, has acquired the European Pyro-Bloc business of the insulating products division of Babcock and Wilcox for less than £0.5m cash. Babcock and Wilcox owns 40 per cent of Morganite Ceramic.

CHRISTY HUNT, maker of machines, reports pre-tax profits of £55,000 (£9,000) for six months to end-1985 on turnover of £2.78m (£1.14m). No tax. Last dividend paid in 1979.

COCKBURN CEMENT, an Australian subsidiary of Rugby Portland Cement, has lifted pre-tax profits from A$8.79m (£4.26m) to A$10.85m (£5.26m) in 1985, on turnover ahead at $72.85m ($57.81m).

FINANCIAL TIMES STOCK INDICES

	Mar. 27	Mar. 26	Mar. 25	Mar. 24	Mar. 21	Mar. 20	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	91.98	91.12	90.8	91.37	91.34	91.09	91.97	80.39	127.4	49.18
Fixed Interest	95.54	94.86	94.35	95.11	95.03	94.30	95.54	86.55	150.4	50.53
Ordinary	1390.0	1380.4	1364.7	1394.6	1412.2	1415.1	1415.1	1094.3	1415.1	49.4
Gold Mines	286.9	291.9	305.4	309.4	312.0	310.8	357.0	257.5	734.7	43.5
FT-Act All.Share	810.48	803.86	795.71	809.87	820.18	819.66	820.18	664.42	820.18	61.92
FT-SE100	168.8	1653.9	1633.8	1663.9	1688.3	1690.1	1690.1	1370.1	1690.1	986.9

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
§160	F.P.	18/4	194	180	✠BPP Hldgs. 10p	190	......	R5.0	2.3	3.6	17.2
¶¶	F.P.	—	140	125	Chillington Corp	135	......	—	—	—	—
¶¶	F.P.	—	70	65	Do. Defd.	70	......	—	—	—	—
155	F.P.	18/4	195	180	Gold Greenlees T. 5p	188	......	R2.9	3.2	2.2	20.5
§105	F.P.	18/4	156	125	Jarvis Porter 10p	130	−3	R3.5	2.6	3.6	15.0
105	F.P.	14/3	145	112	Macro 4 5p	140	......	R1.0	6.5	1.0	21.5
§120	F.P.	24/4	140	134	✠Menvier-Swain 5p	138	......	R2.5	3.5	2.6	15.6
§145	F.P.	4/4	177	155	PPL 10p	165	......	u2.5	6.0	2.2	10.9
‖ ‖	F.P.	—	900	785	Rodime 5p	725	......	—	—	—	6.5
§80	F.P.	4/4	96	85	✠Spice 5p	95	......	u2.6	2.2	4.2	12.3
215	F.P.	1/8	234	215	Templeton Galbraith	230	+1	Q5.57c	2.6	1.8	21.5
100	F.P.	27/3	102	95	Throgmorton USM	101	−1	—	—	—	—
‖ ‖	F.P.	—	145	125	WSL 5p	125	−5	—	—	—	—
120	F.P.	24/3	238	166	Wellcome	220	−2	u2.08	2.6	1.4	23.6
—	F.P.	—	29	8	Westland Warrants	26	......	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price	+ or −
99.999‖	£25	—	25¾	25⅝	ASDA Prop. 10⅝% 1st Mt. Deb. 2011	25¾	......
§100	F.P.	25/4	109	108¼	Aberdeen (City of) 10.8% Red. 2011	109	+½
88.256	£30	19/5	35	30½	American Medical Intl. 9⅝% Uns.Ln.2011	35	+1
§98.287	£25	—	37	25½	Centrovincial Ests. 11½% 1st Mort Db.2016	37	+½
¶¶	F.P.	—	112p	110p	Chillington 9½% Cum. Red. Pref.	112p	......
¶¶	F.P.	27/4	143p	125p	Devenish (J.A.) 4.8% Cnv 2nd. Pref.	125p	......
—	F.P.	—	110p	105p	✠Electron-H'se 5¾% Cnv. Cum Red Prf	105p	......
¶¶	F.P.	10/4	109p	105p	Greenall Whitley 5.95% Cum Red Pref	105p	−3
§99.11	F.P.	8/5	110¼	99¼	Hampton Tst. 11⅝% 1st. Mort. Deb. 2026	110¼	+½
94.917	£30	25/4	37½	19⅞	Inter-Am Dev Bk 9⅝% Uns Ln 2015	37½	+1⅝
‖	Nil	—	124p	107p	Lawrence (W.) 8.5% Cnv.Cum.Red Pref.	121p	......
¶¶	F.P.	—	126p	119p	Morceau 9⅝% Conv. Uns. Ln 2000	125p	+1
—	F.P.	4/4	101⅛	100¼	Nationwide Bldg. Soc. 12⅜% 2/3/87	101⅛	......
¶¶	F.P.	16/4	190p	140p	✠Parkfield 7% Cum. Cnv. Prf. 2005	182p	+5
‖	F.P.	25/4	105p	103p	Porter Chad. 8% Cnv.Cum.Red.Prf. '98	103p	−1
§97.955	£25	—	39¾	25½	Samuel Props. 11% 1st. Mort.Deb.2018	39¾	+¾
§99.480	£25	—	28	24¾	S.E. 10½% Mort. Deb. 2016	27½	+1¼

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price	+ or −
140	Nil	—	285pm	255pm	✠Alida Hlgs.	260pm	......
140	Nil	—	22pm	16pm	Crest Nicholson 10p	22pm	......
200	Nil	—	76pm	65pm	Cullens Hldgs. 10p	75pm	......
5½	F.P.	11/4	10	7½	Dares Ests. 5p	9	......
160	Nil	—	68pm	58pm	Heywood Williams	64pm	+6
330	F.P.	9/4	410	355	✠High Point Services 10p	355	−15
‖r.82	Nil	—	44pm	42pm	Jacobs (W.R.)	42pm	......
285	F.P.	30/4	305	290	KLP 5p	300pm	......
70	F.P.	7/4	83	75	Kent (J.) 5p	82	−1
83	Nil	—	15pm	12pm	Martin (A.) 20p	15pm	......
220	F.P.	24/4	342	278	✠ N.M.W. Computers	335	−2
100	Nil	—	70pm	48pm	Thomson T-Line	68pm	−2
11	Nil	—	9½pm	5½pm	Tranwood 5p	6pm	−1
70	Nil	—	75pm	55pm	WSL 5p	55pm	......
115	F.P.	25/4	152	130	Wates (City of London)	152	+2
425	Nil	—	146pm	136pm	Wolseley-Hughes	144pm	−1

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1986. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ¶* Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ■ Allotment price. ✠ Unlisted securities market. ‡‡ Dealt in under Rule 535 (3). ● Dealt in under Rule 535 (4) (a).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
Abbey Life	Apr 2	Final due	*Higgs and Hill	Apr 16	Final 7.8
*Assoc British Ports	Apr 2	Final 5.5	*Ibstock Johnsen	Apr 3	Final 5.5
BCI	Apr 25	Final 14.0	Inchcape	May 2	Final 11.0
BPCC	Apr 17	Final 6.0	*Kwik Save	Apr 18	Interim 1.4
*BSG Ind	Apr 2	Final 0.65	Laporte Inds	Apr 18	Final 5.55
*Bank of Scotland	Apr 23	Final 9.25	*Laing (J.)	Apr 10	Final 4.25
Bilton (P.)	Apr 22	Final 6.6	Laird	Mar 28	Final 3.2
*Bowater	Apr 15	Final 5.0	Low (Wm)	Apr 19	Interim 4.0
*Brammer	Apr 1	Final 7.5	Mowlem (J.)	May 1	Final 9.73
*Britannia Arrow	Apr 4	Final 1.4	NEI	Apr 17	Final 3.6
*Brixton Estate	Apr 17	Final 3.05	*Ocean Transport	Apr 2	Final 3.35
*Bunzl	Apr 2	Final 4.25	*Pentland	Apr 7	Final 2.1
*Burmah Oil	Apr 10	Final 7.25	RMC	Apr 17	Final 8.6
Burton	Mar 27	Interim 2.5	*Reckitt and Colman	Apr 3	Final 8.8
*Coates Bros	Apr 2	Final 3.2	*Rio Tinto Zinc	Apr 9	Final 13.5
*Cookson	Apr 10	Final 8.25	*Rugby Portland Cement	Apr 7	Final 3.3
Eastern Produce	Apr 2	Final 7.5	Samuel Props	Apr 25	Interim 1.6
*Enterprise Oil	Apr 2	Final 5.0	Simon Engineering	Apr 29	Final 5.5
Etam	Apr 17	Final 2.1	*Slough Ests	Apr 1	Final 3.0
Evered	Apr 2	Final 1.6	*Smiths Inds	Apr 9	Interim 1.5
Flight Refuelling	Apr 28	Final 2.025	Staffs Potts	Mar 28	Interim 1.0
Foseco	May 1	Final 4.7	*Standard Chartered	Mar 25	Final 19.0
*Glaxo	Apr 15	Interim 6.0	*Sun Alliance	Apr 2	Final 9.75
*Glynwed Intl	Apr 7	Final 6.0	Tarmac	Apr 30	Final 12.0
*Guardian Royal Exchange	Apr 2	Final 17.5	*Taylor Woodrow	Apr 15	Final 11.0
Hall (Matthew)	Apr 17	Final 6.625	Travis and Arnold	Apr 15	Final 5.97
Hammerson Prop	Apr 19	Final 6.5	Ward White	Apr 18	Final 4.0
Harris Queensway	Apr 18	Final 2.75	*Weir	Apr 3	Final 2.125
*Hawker Siddeley	Apr 16	Final 7.7	*Wimpey (G.)	Apr 24	Final 2.4
Hepworth (J.)	Apr 16	Interim 1.0			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Finals:—Arcolectric, Atlantic Computers, Brammer, CCA Galleries, Emess Lighting, Fitch and Co Design Consultants, Kleinwort Benson Gilt Fund, Kleinwort Benson Sterling Asset Fund, Stanley Miller, Molins, Rotaflex, Slough Estates.

FUTURE DATES

Finals:—

Baird (William)	Apr 10
Britannia Arrow	Apr 4
Burmah Oil	Apr 10
Cowells	Apr 9
Elys (Wimbledon)	Apr 2
Executex Clothes	Apr 2
Kalon	Apr 10
London and Edinburgh Trust	Apr 8
Metsec	†Apr 8
Newarthill	Apr 18
Senior Engineering	Apr 10
Stewart Wrightson	Apr 9
Sutherland (E. T.)	Apr 4

†Amended

BANK RETURN

BANKING DEPARTMENT

	Wednesday March 26, 1986	Increase (+) or decrease (−) for week
LIABILITIES	£	£
Capital	14,553,000	—
Public Deposits	1,659,947,195	− 1,662,611,066
Bankers Deposits	895,043,348	− 28,829,147
Reserve and other Accounts	1,472,647,053	+ 25,752,950
	4,040,190,596	− 1,665,687,263
ASSETS		
Government Securities	543,667,595	− 20,598,376
Advance & other Accounts	960,693,885	+ 195,887,651
Premises Equipment & other Secs.	2,524,345,157	− 1,846,396,570
Notes	11,194,011	+ 5,371,189
Coin	300,148	− 5,127
	4,040,190,596	− 1,665,687,263

ISSUE DEPARTMENT

	£	£
LIABILITIES		
Notes in circulation	12,488,806,989	+ 394,628,811
Notes in Banking Department	11,194,011	+ 5,371,189
	12,500,000,000	+ 400,000,000
ASSETS		
Government Debt.	11,015,100	—
Other Government Securities	2,364,290,152	+ 171,118,857
Other Securities	10,124,694,748	+ 228,881,143
	12,500,000,000	+ 400,000,000

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NatWest in 1985

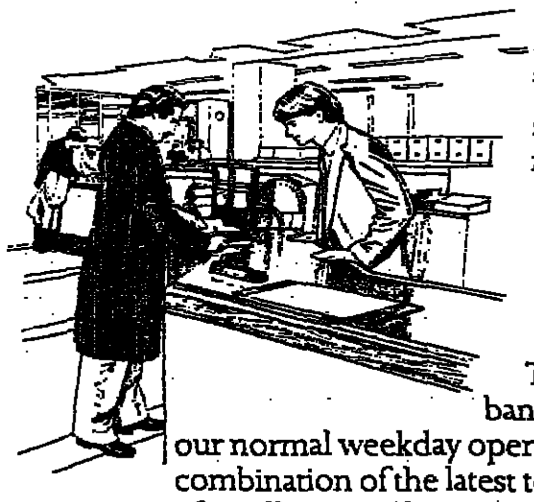
"Facing change from a position of strength"

We are determined to maintain our position as a leading international financial services organisation. In 1985 we took significant steps to strengthen our position, and responded positively to the demands of the highly competitive and rapidly changing markets in which we operate.

Strength in the High Street

In 1985 financial institutions of all types competed aggressively for personal customer business. The strength of our customer base and branch network, together with our commitment to provide a high standard of service in all our dealings with customers, enabled us to maintain our leading position.

In December we introduced 'No Charge' banking for our five million personal customers. We are attracting a substantial number of new accounts.



We started Saturday banking in May and by the end of the year we were open for business at 190 locations. The style of Saturday banking is different from our normal weekday operations, and the combination of the latest technology and a secure, yet friendly open plan environment will become an increasing feature throughout our branch network and not just on Saturdays.

During 1985 we added 500 automated teller machines to our network of Servicetills and Rapid Cash Tills, which we believe to be the largest independent network in the world.

The NatWest Saver Service is made up of a variety of products, each of which is targeted at a specific segment of our diverse customer base.

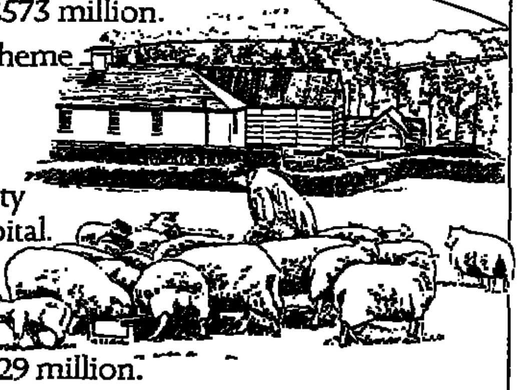
The Special Reserve Account was introduced in January 1985, attracting new customers as well as encouraging existing ones to save with us. In the younger savings market, our 'Piggy' accounts go from strength to strength with the millionth ceramic pig being issued in 1985.

We are the largest provider of mortgage finance amongst the UK banks, and National Westminster Home Loans saw another year of growth with new advances of over £850 million and a total mortgage book approaching £3,400 million.

Strength for Business

For the UK business community, 1985 was a year of modest economic improvement. We saw continuing growth in our lending to all sectors, which at the end of 1985 exceeded £12 billion.

We continue to support the small business sector very strongly with total lending approaching £6 billion. Our Business Development Loan Scheme continues to be popular. In 1985, 43,000 loans were agreed involving over £573 million.



Our Capital Loan Scheme helps to meet the need for venture capital, and equity finance is also available through County Bank Development Capital. We are leaders in the growing franchise market where our lending now exceeds £29 million.

Our commitment to the agricultural sector is demonstrated by our lending which exceeds £1.3 billion.

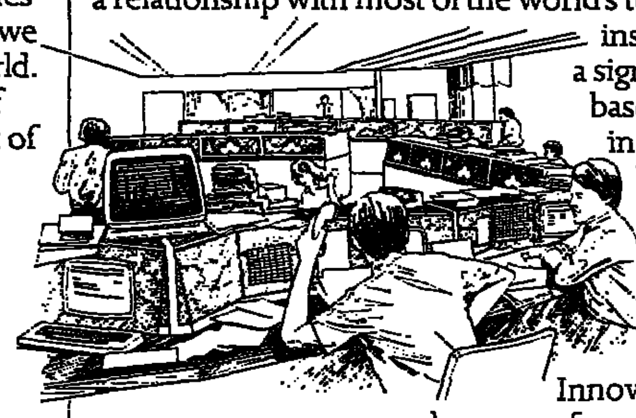
As part of our commitment to provide a high standard of service, we are establishing over 100 Corporate Banking Centres with expert staff, providing the specialist attention and advice required by our medium and large corporate customers.

Strength in Changing World Markets

As one of the world's leading international banks, we are poised to take full advantage of changing world markets.

Our controlled and cautious stance on sovereign debt has resulted in a relatively low exposure to the major problem situations.

The hallmark of NatWest remains our ability to provide a tailor-made service to our customers and we have a relationship with most of the world's top corporate institutions. We have a significant operating base in the USA, and in 1985 NatWest USA achieved a 34% increase in pre-tax income to reach a record US $87.9 million.



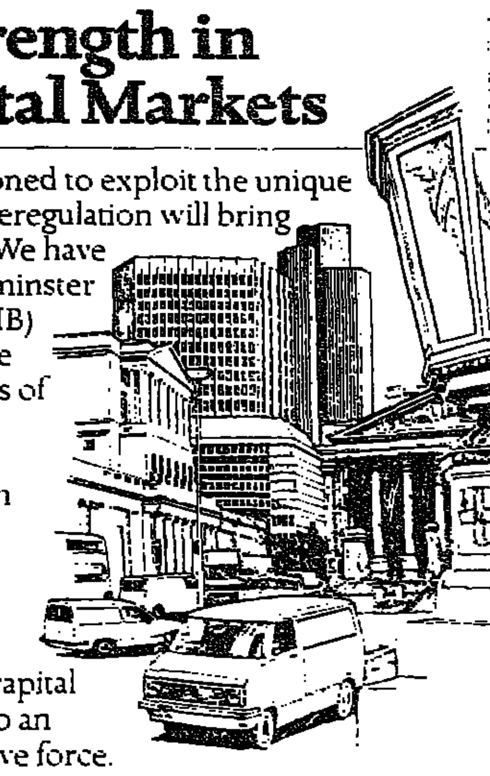
Innovation has been the keynote of our foreign exchange and money market operations, with new financial instruments such as interest/currency rate swaps, options and future rate agreements finding favour with our customers.

We are proud of the reputation we have earned in project finance, and we played a leading role in the Channel Tunnel Group, successful contenders to build the fixed link across the English Channel.

In 1985, we expanded our international business to meet the growing needs of our customers in the Far East, Australia, Canada and Spain.

Strength in Capital Markets

We are well positioned to exploit the unique opportunities which deregulation will bring to the City of London. We have formed National Westminster Investment Bank (NWIB) which will combine the merchant banking skills of County Bank and the securities capability of Fielding Newson-Smith and County Bisgood.



NWIB will be capitalised at £300 million and will weld together the different capital markets disciplines into an effective and competitive force.

Strength in the Community

We take great pride and pleasure in the way we work with and for the communities where we operate. Our Community Services Programme includes help to charities, staff secondments and sponsorship. We supported over 5,000 organisations with more than £6 million.

Confidence in the Future

Looking back over 1985, we derive a great deal of satisfaction from the progress and achievements of National Westminster Bank Group.

We have harnessed the forces of change to work for the Group's benefit and have laid the foundations for our future prosperity.

We do not underestimate the tasks before us but in our traditional strengths, stability and consistency of performance, we have the qualities that will enable us to seize the opportunities ahead.

Financial Highlights 1985

Pre-tax profits	£804 million
Total assets	£72,000 million
Deposits	£64,800 million
Advances	£53,500 million

The Annual Report and Accounts may be obtained from the Secretary, National Westminster Bank PLC, 41 Lothbury, London EC2P 2BP.

The Chairman, Lord Boardman, comments:

"Excellent results were again achieved in 1985.

Wherever we operate, at home and abroad, we are strengthening relationships with our customers by adapting our business to meet their changing needs.

The world's financial markets are changing rapidly. Competition in 1985 remained strong and will intensify in 1986. Deregulation is a potent catalyst for change. Traditional barriers in the financial services sector are being dismantled, and this will have an impact both upon the personal and corporate sectors of our business.

Technology is speeding the process of change through faster communications and is also enabling us to contain costs and improve efficiency.

On the economic front, the international recovery proved more durable than many expected. 1985 was the third consecutive year of sustained growth with the United Kingdom economy enjoying faster growth than most other major developed countries.

Yet a number of problems from past years are still unresolved, particularly the high unemployment in many countries, the international debt situation and the increasing threat of protectionism. There have recently been welcome signs of international co-operation to deal with these issues but much remains to be done before more settled trading and banking relationships can be re-established.

The leading British banks are one of the few sectors of the UK economy which face intense world competition and yet at the same time rank close to the top of the international league table. In achieving this, they contribute very substantially to the nation's invisible earnings.

The rapid changes that are taking place in the financial sector make exceptional demands upon those who have to provide a wide range of services and quickly adapt to new techniques. Our very successful year was made possible by the efforts of our staff and I take this opportunity to thank them."

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UK COMPANY NEWS

Wold tumbles to £465,000

IN SPITE of a second half which produced profits of £2.3m compared with £2.8m, Wold, freezer and packer of green vegetables, returned pre-tax figures for 1985 as a whole considerably lower at £465,000, compared with £1.47m. This result was foreshadowed in a statement issued by the company in January.

The second half profits were achieved in spite of very difficult harvesting conditions, and the directors say the shortfall in group profits is solely attributable to the performance of Wold Farm Foods, the principal subsidiary involved in the harvesting and freezing of vegetables.

The main adverse factors influencing this business were: The cold, wet barvest and slow maturity of crops, with resultant low yields; lower factory production volumes resulting in higher unit processing costs; and the need to purchase frozen products on the spot market resulting in higher interest charges — up by £400,000 to £872,000.

The results of the first two months of 1986 are in line with budget, and current selling prices are higher than at this time last year.

Group turnover for 1985 was up from £26.04m to £30.97m.

Stated earnings per 5p share of this USM quoted company fell from 5p to 0.99p. There is no final dividend — an interim of 0.75p net was paid in November.

John I. Jacobs profit maintained at £1.3m

Higher investment income and further gains on realisations have helped the John I. Jacobs shipbroking and shipowning group to hold its pre-tax profit at £1.3m for 1985.

From a turnover of £1.75m (£1.35m) the group produced a gross profit of £347,000 (£304,000), but that had to bear administration costs of £621,000 (£517,000).

However, investment income and interest rose to £960,000 (£758,000) and the profit on realisation of investment to £525,000 (£364,000).

This left an operating profit of £1.2m (£909,000), to which was added share of related companies £377,000 (£606,000) and deducted interest payable £277,000 (£214,000).

Tax takes £331,500 (£436,500) to leave a net profit of £979,500 (£864,500). Earnings are 4.25p (3.75p) and the dividend is lifted to 3.6p (3.3p) with a final of 2.2p.

There is an extraordinary gain of £287,000 representing mainly the net surplus on disposal of the interest in Socomet Auvray and a share of a related company's extraordinary item.

Lyon & Lyon little changed

A downturn of £116,000 in the second six months of 1985 left profits of Lyon & Lyon little changed for the full year at £429,208 pre-tax, compared with £443,114.

Turnover expanded from £11.6m to £13.9m—the group, based in West Yorkshire, is a Ford main dealer, vehicle repair specialist and a shipbuilder and repairer.

Tax was reduced by £114,408 to £99,937 and left earnings at 9.98p, against 6.84p previously. A final divident of 4p makes a same-again net total of 5.5p.

Forward Technology

Forward Technology Industries, which manufactures electronics and specialised machinery, has returned to the dividend list with a 0.5 payment for the 1985 year, the first for four years.

The payment was made possible by a 41 per cent rise in taxable profits for the year, at £1.02m against £722,000. This came out of turnover of £24.76m against £22.02m. The result was further boosted below the line by a £1.29m extraordinary profit relating to the sale of subsidiaries, and the comparitive figures have been adjusted to reflect the disposals.

The directors say that the financial disciplines that have been necessary over the past four years have borne fruit, and the company's net debt has been reduced from 255 per cent to 5 per cent. They expect that results for the current year should show continuing progress.

House of Lerose

House of Lerose, the garment maker, fabric printer and dyer, achieved taxable profits of £1.2m, against £727,000, in the 1985 year. Turnover was lower at £16.6m (£17.04m).

The final dividend is being lifted to 5.4p (5p), making a higher total of 8.4p (8p). Earnings per share were 15.3p (10.6p), after tax of £323,000 (£121,000)—there was an exceptional deferred tax credit this time of £354,000.

Tesco sale

Tesco has announced that an agreement has been reached for the sale of Tesco Stores Ireland to H. Williams and Company, the Dublin-based supermarket group, for I£17m (£15.2m sterling) adjusted by the net working capital value as at the date of completion.

Sunbeam Wolsey

Sunbeam Wolsey, Cork-based textile group, attained higher taxable profits of I£1.34m, against I£1.21m (£1.07m) for the 1985 year. Turnover was I£32.16m compared with I£28.09m.

Earnings per 25p share were 12.1p (11.8p). The final dividend is unchanged at 3p, maintaining the total at 4p.

Arncliffe losses fall

The pre-tax loss, after all known charges and depreciation, was reduced from £387,022 to £275,583 at Arncliffe Holdings, in the year to October 31 1985, with second half losses down from £383,250 to £191,799.

Turnover for this Leeds-based property developer and building contractor was slightly lower at £5.4m against £5.55m.

F.T. Share Information

The following securities have been added to the Share Information Services:

Great Pacific Resources Inc (Section: Canadians).

Provincial profits dive after general insurance setback

KENDAL-BASED Provincial Insurance suffered a severe setback on its general insurance operations in 1985 and for the year achieved a pre-tax profit of £368,000, compared with £3.69m in 1984.

Underwriting losses on its worldwide general insurance operations rose from £12.65m to £21.68m—well in excess of investment income, up 16 per cent in sterling terms from £15.04m to £17.49m.

Profits from non underwriting subsidiaries and associated companies almost doubled from £2.27m to £4.36m. But it was left to the company's buoyant long-term business where profits jumped from £300,000 to £1.5m to achieve an overall profit result last year.

However, the company is lifting its dividend for the year by nearly 9 per cent, from 23p to 25p.

General insurance business in the UK showed a near-30 per cent growth in premiums from rating increases and higher volumes of business. However, underwriting losses spared during the year from the household and motor accounts.

The company's motor business suffered, as did the industry, from higher claim numbers and rising claim costs. Household business suffered from continuing high incidence of thefts severe weather and subsidence.

Accident and transit business produced good results, but the commercial property account suffered underwriting losses because of inadequate premium levels.

Overseas, general insurance business produced a substantial loss — particularly in Canada.

The company is proposing a reorganisation, with a non-insurance holding company and the cancellation of the 10 per cent and 25 per cent listed preference shares for cash paymnts of 140p and 70p per share respectively.

Full details will be sent to shareholders within the next three months.

United Trust & Credit set for USM in June

BY RICHARD TOMKINS

United Trust & Credit, an issuing house and financial services group whose shares are traded on the over-the-counter market, looks set to join the USM's growing financial services sector in June with a market capitalisation of about £10m.

The company was founded in 1982 by Mr Geoffrey Simmonds and Mr Richard Owen. Its turnover comes mainly from market making in OTC and Stock Exchange-quoted securities, but the corporate finance division is the chief contributor to pre-tax profits.

UTC is active in the new issues market and has so far brought 11 companies to the OTC and eight to the USM. Among the USM issues have been Gable House (now on the main market), John Kent, Sangers Photographic, and Applied Holographics.

Profits rose from £302,000 to £762,000 for the year to December 1985 on turnover up from £8m to £13m. At its fund-raising share issue last July the company had forecast profits for the year of £600,000.

The USM flotation will be preceded by a rationalisation of UTC's share capital which at present gives 20 votes a share to the holders of 200,000 founders' shares.

Unidare share placing

Substantial changes are being made to shareholdings in Unidare, the Dublin-based electrical cable and transformer maker, with Philips Electrical reducing its 51 per cent controlling stake to 10.5 per cent and Alan Aluminium disposing of its 25.5 per cent holding.

A total of 6.28m shares (Philips 3.85m and Alcan 2.43m) are being placed by Allied Irish Investment Bank at 175p each with Dublin based institutional investors.

Philips will hold its remaining 1m shares (10.5 per cent) for at least one year. It will continue the same level of management support as before and its nominees remain on the board.

Following the rationalisation of the past four years, Unidare, with its new shareholder base and sound balance sheet, "is poised for an exciting future."

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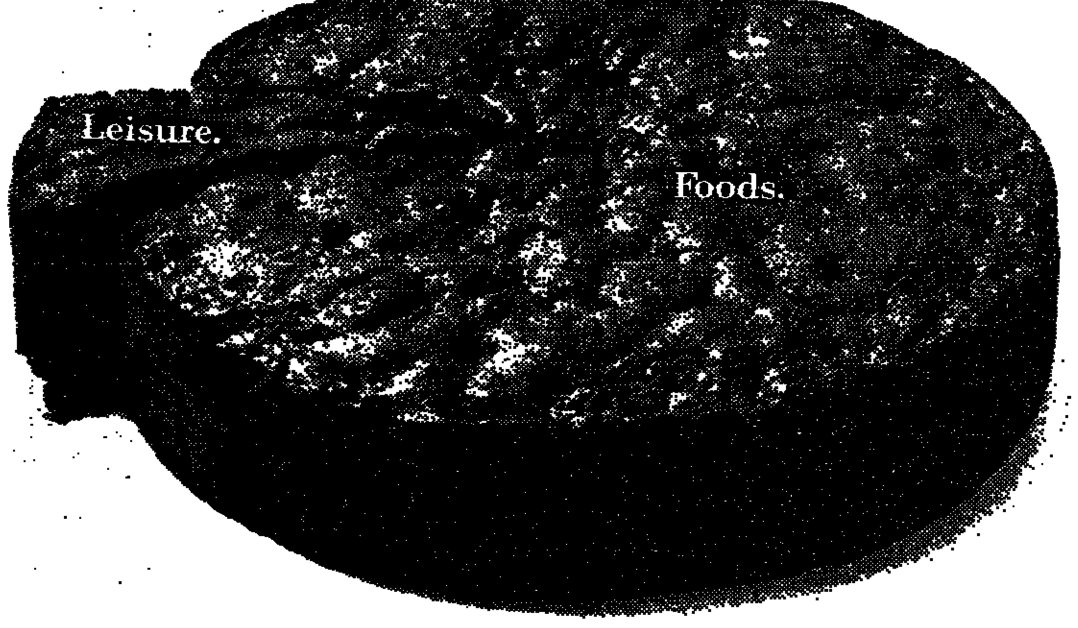
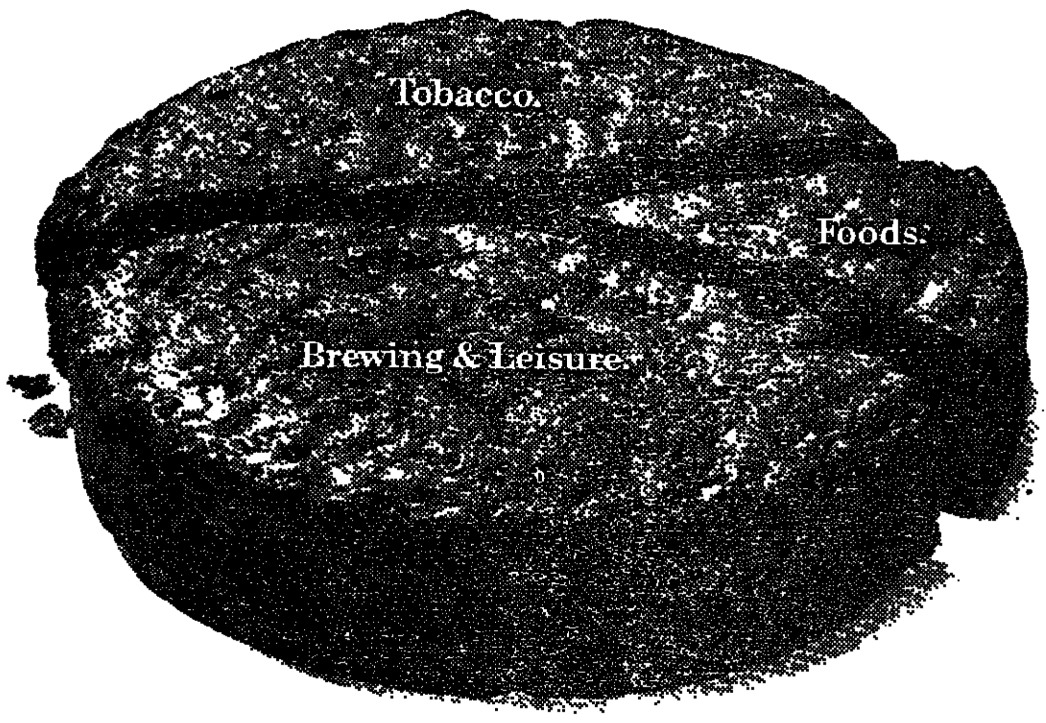
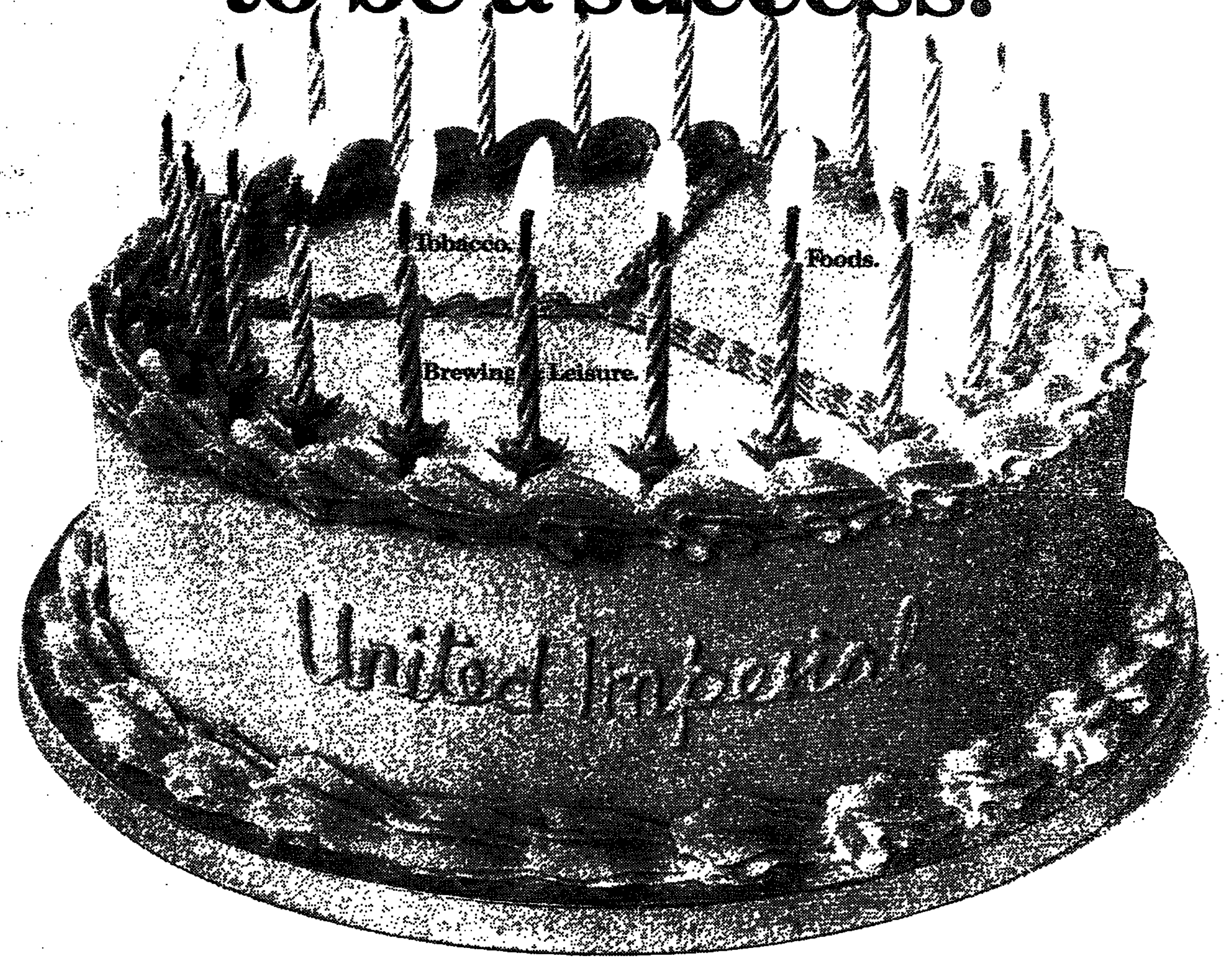


United Biscuits.



Imperial.

When everyone has so much to bring to the party, how can it fail to be a success?



But apart from the cake, there's the icing:

1. United Imperial would become an even greater force in food manufacturing and leisure. (UB and Imperial are strong individually. Imagine them together.)

2. United Imperial would reduce overheads. (Wherever possible, duplication would be eliminated. And distribution and warehousing would be rationalised.)

3. United Imperial would develop, re-invest, and expand in food and leisure. (By definition, a stronger cash flow releases funds.)

4. United Imperial would open up real market opportunities for both companies. (Consider the complementary nature of their businesses and their sales forces.)

5. United Imperial would be even more innovative. (Pool the ideas of two top Research and Development teams, and eureka!)

It really should be some get-together.

United Imperial

THE LONGER YOU LOOK AT IT, THE MORE IT MAKES SENSE.

*SOURCES. UB: FOODS [illegible], LEISURE [illegible], UNAUDITED TRADING PROFIT OF £[illegible]M FOR 53 WEEKS ENDED 28TH DECEMBER 1985 EXTRACTED FROM THE PRELIMINARY RESULTS. IMPERIAL: FOODS [illegible], BREWING AND LEISURE [illegible], TOBACCO [illegible], OPERATING PROFITS OF £[illegible]M ACCORDING TO 1986 PROFIT FORECAST. UNITED IMPERIAL: FOODS [illegible], BREWING AND LEISURE [illegible], TOBACCO [illegible], BASED ON COMBINED TRADING AND OPERATING PROFITS FOR THE PERIODS STATED.

INSURANCE

Sigh of relief at go-ahead for unsolicited calls

BY ERIC SHORT

LIFE ASSURANCE and unit trust sellers, whatever their category, were relieved last week when a joint document from the Securities and Investments Board and the Marketing of Investments Board Organising Committee (Sib/Miboc) issued proposals that would allow them to continue unsolicited visits to potential clients to obtain business.

Sib/Miboc has accepted the arguments by the life assurance industry that cold-calling, as it is known, is essential in marketing life assurance and unit trust products.

There has always been considerable unrest over unsolicited calling, especially from consumer protection bodies. They do not like the idea of any seller being able to call uninvited at people's homes, telephone them at home or at work, or stop them in the street.

Clause 51 of the Financial Services Bill set out the general rule that would make it illegal for the seller to try to sell any investment product, or make any other investment agreement, during an unsolicited call.

Such calls are defined not only as visits to people's homes but also as contacting them by telephone and stopping them in the street — the notorious clipboard selling. If cold-calling were banned, life assurance would lose one of its main marketing methods.

However, Clause 51 allows Sib/Miboc to propose various categories of persons to be allowed to make contracted calls and the life assurance industry has been lobbying hard for life and unit trust sellers to be such a category — using the well-worn argument that life assurance has to be sold rather than bought.

This would have been an opportune time for the life assurance industry to re-examine its marketing methods, in the light of changes in marketing habits and developments in communications. Instead it has opted for the *status quo* and has persuaded Sib/Miboc of its arguments.

So where does the consumer stand? After all, the *raison d'être* for the Financial Services Bill is to protect the consumer as investor — though the arguments being put forward at times seem more concerned with protecting the seller.

The Sib/Miboc proposals provide for consumer protection in two ways.

First, the proposals contain a code of conduct which a seller would have to abide by when conducting an unsolicited call. This code amplifies the conduct of business rules published by the Sib and is similar to the voluntary code of selling practice for life assurance operated by the Life Insurance Council of the Association of British Insurers. The main features of the Sib/Miboc code are:

- No call shall be made at an unsocial hour.
- The seller, at the outset, must state his or her name and that of his or her company and the purpose of the call.
- The seller has to respect the right of the person to bring the call to an end at any time, and to comply with such a request promptly and courteously.
- No statement shall be made during the call which is untrue, or not wholly true or even exaggerated. The seller must not give an evasive answer to a question by the prospective client.

At this stage, no one is prepared to say how such rules are to be enforced, particularly the last one. Many sellers boast that there is no question they cannot talk their way round, or talk their way out of.

Mr Mark Weinberg, chairman of Miboc, when talking about enforcement, refers to the threat of discipline on any seller caught breaking the rules, and to inspectors from self-regulatory organisations who would descend on firms and sellers to check their activities.

The second protection for consumers buying life assurance and unit trusts through consolidated calls (and presumably via any other marketing) is the cooling-off period.

Under the Sib/Miboc proposals, investors would have 14 days after the sale to change their mind and get their money back. They would receive by post a cooling-off notice from the life company or unit trust group issuing the investment product. This notice would contain details of the product, the commission, charges and surrender or early cash-in values. The exact details have yet to be determined.

Cooling-off procedures already operate in the life assurance industry. However, these proposals would considerably extend their scope.

Cooling-off would apply to all life and unit trust products, with very few exemptions. Single-premium bonds, industrial life policies and pension policies *would* be subject to cooling-off procedures, though Inland Revenue approval needs to be sought over pension contracts, premium refunds not being permitted at present on these contracts.

Also much more information would be given, compared with that under the existing practice. The investor could have a little longer in which to decide —14 days instead of the present 10 days.

In respect of linked-life bonds and unit trusts, the industry has argued that the cooling-off period gives investors a free investment option against them. If the market rises after they have bought their contract, they accept. But if it falls, they can exercise their optiton and get their money back.

The proposals envisage that investors in such products would receive the lower of the offer price of the units at the time of purchase and at the time of exercising the option—they would carry the investment risk but would not pay the front-end charges.

The life assurance industry, by way of initial reaction accepts the principles behind the proposals but says it needs to study the details. It is concerned that the cooling-off notice may provide too much information, thus confusing the investor.

The danger with a statutory notice is that its contents are prescribed by law and so are rigid in operation. The need is for flexibility so that the investor may distinguish the important information for the particular contract.

However, many in the industry see no need to hurry over details. There is a growing worry that the cost of providing this extra information will far outweigh the benefit to the consumer.

Copies of the proposals can be obtained from Sib/Miboc, 3 Royal Exchange Buildings, London EC3V 3NL. Comments on them should be submitted by May 15.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and sterling strong

BY COLIN MILLHAM

The dollar and sterling were two of the stronger currencies on the foreign exchanges last week, but trading was generally quiet and technical ahead of the Easter holiday and the quarter end.

Comments from Japan about the problems of a weaker dollar and a stronger yen, appeared to have the desired affect, but the recovery by the US currency was also encouraged by a shortage of dollars in the market, as far as commercial customers were concerned, and by squaring of positions ahead of the long holiday weekend.

Japanese officials may have taken advantage of the resignation of Mr Preston Martin, as vice chairman of the Federal Reserve Board, to reverse the downward trend in the dollar.

Mr Paul Volcker's position as chairman of the Board appeared to be reinforced by Mr Martin's resignation, and Mr Volcker has recently warned of the inflationary danger from a downward spiralling dollar. It was against this background that an official from the Bank of Japan stated the Japanese central bank and the Federal Reserve were in agreement that the dollar's fall was more or less complete.

At about the same time Mr Yasuhiro Nakasone, Japanese Prime Minister, said the yen had risen too quickly, and he expected the Bank of Japan to take action to correct the situation. In what seemed to be further concerted action to talk the dollar up, Mr Satoshi Sumita, Governor of the Bank of Japan, stated a further fall in the value of the dollar would have an unfavourable impact on the world economy, as it would cause inflationary pressure in the US.

These remarks had the desired effect, and without any apparent intervention by central banks, the dollar showed signs of recovery. The market view was that central banks had set a floor of Y175 and DM 2.20 under the dollar, and they appeared to have done this without any great cost in reserves.

In a market technically short of dollars the US currency began to rise, attacking the Y180 and DM 2.35 levels. Fighting in the Mediterranean between the US Sixth Fleet and Libyan forces led to flight into the dollar, while US economic statistics were generally encouraging. February consumer prices fell by 0.4 per cent, the largest fall since July 1949, taking inflation down to an annual rate of 3.2 per cent from 3.9 per cent. February durable goods orders were confusing, but the trade figures in the same month were better than expected showing a deficit of $12.49bn, compared with a record shortfall of $16.46bn in January.

The dollar failed to establish itself above a technical resistance point of around DM 2.3550, but in a confusing end of month market it was difficult to decide where the US currency would move immediately after Easter.

Sterling was below the high of $1.5115 touched at the end of the previous week, but strong against the D-mark and other major currencies. The exchange rate index rose to 76.3 from 75.9 on the week, according to the Bank of England. After a nervous period, demand for gilts and UK equities remained strong, and the pound shrugged off the threat to oil prices from the break up without agreement of the Organisation of Petroleum Exporting Countries meeting in Geneva.

£ IN NEW YORK

	Close	Prev. close
£ Spot	$1.4740-4750	$1.4760-4775
1 month	0.53-0.52pm	0.53-0.52pm
3 months	1.41-1.38pm	1.40-1.38pm
12 months	3.80-3.70pm	3.72-3.62pm

Forward premiums and discounts apply to the US dollar.

CURRENCY MOVEMENTS

Mar. 27	Bank of England Index	Morgan Guaranty Change %
Sterling	76.3	−14.8
U.S. dollar	119.3	+9.7
Canadian dollar	79.0	−12.3
Austrian schilling	134.0	+6.6
Belgian franc	93.5	−8.8
Danish Kroner	84.4	−2.5
Deutsche mark	132.5	+13.1
Swiss franc	153.7	+13.8
Guilder	122.5	+8.0
French franc	70.6	−11.1
Lire	45.7	−18.5
Yen	193.9	+42.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

OTHER CURRENCIES

Mar. 27	£	$
Arg'tina	1.1844-1.1871	0.8000-0.8010
Aus'alia	2.0770-2.0810	1.4025-1.4040
Brazil	20.3864-20.5100	13.77-13.84
Finland	7.6910-7.7210	5.1960-5.1980
Greece	211.95-216.25	143.23-146.12
H'kong	11.5700-11.5900	7.8170-7.8200
Iran	120.25*	80.55*
Kuwait	0.4290-0.4305	0.29030-0.29050
Lux'burg	70.80-70.90	47.70-47.80
Malaysia	3.8050-3.8150	2.5710-2.5740
N'Z'land	2.7630-2.7730	1.8655-1.8710
Saudi Ar.	5.3975-5.4035	3.6495-3.6510
Sin'pore	3.2140-3.2240	2.1710-2.1740
S.Af. (Cm)	3.1055-3.1150	2.1010-2.1075
S.Af. (Fn)	4.5480-4.6920	3.0770-3.1745
U.A.E.	5.4300-5.4385	3.6715-3.6745

* Selling rate.

CURRENCY RATES

March 27	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.768343	0.632076
US $	7	1.14122	0.936737
Canadian $	10.44	*	1.30909
Austria Sch	4	18.5699	15.2501
Belgian Fr.	9¾	54.1851	44.4739
Danish Kr.	7	N/A	8.02081
D'mark	3½	2.64478	2.17136
Guilder	4½	2.98201	2.44816
French Fr.	9½	8.13975	6.68034
Lira	14	1738.73	1477.47
Yen	4	205.420	168.061
Norway Kr.	8	N/A	6.78432
Span'h Pta.	—	N/A	136.389
Swedish Kr	8½	8.35658	6.85177
Swiss Fr.	4	2.21362	1.81699
Greek Drch	20½	164.621	134.590
Irish Punt	—	N/A	0.718357

*C$/SDR rate for March 26: 1.58872.

POUND SPOT—FORWARD AGAINST POUND

March 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4765-1.4875	1.4835-1.4845	0.54-0.51c pm	4.25	1.43-1.38pm	3.79
Canada	2.0665-2.0835	2.0695-2.0725	0.13-0.01c pm	0.41	0.38-0.21pm	0.55
Nethlnd.	3.86¾-3.89¼	3.88½-3.89½	2½-1⅞c pm	6.17	5¾-5¼pm	5.66
Belgium	70.27-70.90	70.80-70.90	4c pm-6 dis	−0.17	25-10pm	0.98
Denmark	12.66-12.73½	12.72½-12.73½	4¾-3¼ore pm	3.77	11¾-9¾pm	3.34
Ireland	1.1325-1.1425	1.1400-1.1410	0.35-0.50p dis	−4.47	0.85-0.96dis	−2.81
W. Ger.	3.43-3.45¾	3.44½-3.45½	2¼-1⅞pf pm	6.96	6⅞-5¾pm	6.67
Portugal	221¾-225	223.20-224.90	150-420c dis	−15.26	415-1205d	−14.46
Spain	216-217½	216½-217	25-60c dis	−2.35	65-170dis	−2.08
Italy	2,333¾-2,361¼	2,348-2,349	9-12lire dis	−5.37	23-28dis	−4.34
Norway	10.70-10.78½	10.77-10.78	⅞-1⅞ore dis	−1.53	4¼-5⅜dis	−1.83
France	10.55¼-10.63¾	10.61¾-10.62¾	2-3¾c dis	−3.25	1¾-4¼dis	−1.04
Sweden	10.84-10.88	10.87-10.88	1½-¼ore pm	0.76	2¼-⅞pm	0.55
Japan	265-266¾	265¾-266¾	1½-1⅜y pm	6.48	4⅛-3⅞pm	6.01
Austria	24.06-24.19	24.10-24.14	14-12¾gro pm	6.53	35¾-31¼pm	5.60
Switz.	2.87½-2.89¾	2.88½-2.89½	1⅞-1¾c pm	7.27	5¼-5pm	7.09

Belgian rate is for convertible francs. Financial franc 71.70-71.80. Six-month forward dollar 2.25-2.20c pm. 12-month 3.80-3.65c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

March 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4765-1.4875	1.4835-1.4845	0.54-0.51c pm	4.25	1.43-1.38pm	3.79
Ireland†	1.2944-1.3049	1.2960-1.2975	[illegible]	[illegible]	[illegible]	7.51
Canada	1.3965-1.4010	1.3965-1.3975	[illegible]	[illegible]	[illegible]	−3.35
Nethlnd.	2.6070-2.6300	2.6205-2.6215	[illegible]	[illegible]	[illegible]	1.92
Belgium	47.43-47.80	47.70-47.80	[illegible]	[illegible]	[illegible]	−2.86
Denmark	—	8.57½-8.58	[illegible]	[illegible]	[illegible]	−0.47
W.Ger.	2.3140-2.3320	2.3250-2.3260	[illegible]	[illegible]	[illegible]	2.88
Portugal	150¼-151½	150½-151½	[illegible]	[illegible]	[illegible]	−18.54
Spain	145.40-146.20	145.55-145.65	[illegible]	[illegible]	[illegible]	−5.76
Italy	1,575-1,587	1,582-1,583	[illegible]	[illegible]	[illegible]	−7.36
Norway	—	7.25¼-7.26¼	[illegible]	[illegible]	[illegible]	−5.69
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	−4.84
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	−3.28
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.16
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.97
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible franc. Financial franc 48.30-48.40.

EXCHANGE CROSS RATES

Mar.27	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.484	3.450	266.3	10.62	2.890	3.890	2349.	2.071	70.85
$	0.674	1.	2.326	179.6	7.155	1.948	2.621	1583.	1.396	47.75
DM	0.290	0.430	1.	77.17	3.078	0.838	1.128	680.7	0.600	20.54
YEN	3.756	5.574	12.96	1000.	39.88	10.85	14.61	8821.	7.778	266.1
F Fr.	0.942	1.398	3.249	250.8	10.	2.722	3.664	2212.	1.951	66.73
S Fr.	0.346	0.513	1.194	92.13	3.674	1.	1.346	812.6	0.717	24.52
H Fl.	0.257	0.381	0.887	68.44	2.729	0.743	1.	603.7	0.532	18.21
Lira	0.426	0.632	1.469	113.4	4.521	1.231	1.656	1000.	0.882	30.17
C $	0.483	0.717	1.666	128.6	5.127	1.395	1.878	1134.	1.	34.21
B Fr.	1.411	2.095	4.869	375.8	14.99	4.079	5.490	3315.	2.923	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.4840	1.4789	1.4700	1.4618	1.4468
D-Mark	3.4500	3.4302	3.3929	3.3516	3.2721
French Franc	10.6175	10.6484	10.6454	10.6554	10.5966
Swiss Franc	2.8900	2.8721	2.8387	2.7991	2.7263
Japanese Yen	266.25	264.82	262.30	259.30	253.97

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.4739	−0.80	+1.18	±1.5425
Danish Krone	8.12857	8.02081	−1.33	+0.65	±1.6421
German D-mark	2.23840	2.17136	−2.99	−1.01	±1.1455
French Franc	6.86402	6.68034	−2.68	−0.70	±1.3654
Dutch Guilder	2.52208	2.44816	−2.93	−0.95	±1.5162
Irish Punt	0.724578	0.718357	−0.86	+1.12	±1.6673
Italian Lira	1520.60	1477.47	−2.84	−1.81	±4.0856

Changes are for Ecu, therefore positive change denotes a week currency. Adjustment calculated by Financial Times.

EURO-CURRENCY INTEREST RATES

Mar. 27	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Fr. Franc	8-10	12-15	15-15¼	12¼-12½	11-11¼	10-10¼
Italian Lire	9-13	16-18½	16¼-17¼	15-15¾	14⅝-14⅞	13⅝-14⅛
B.Fr.(Fin)	9¾-10	9½-10	9¾-10	9⅝-9⅞	8¾-9	8⅛-8⅜
B.Fr.(Con)	10-10½	12-14	11-12	10-10½	9-9½	8¼-8¾
Yen	7-7¼	5⅝-6⅛	5⅝-5⅝	5¼-5⅝	5⅛-5⅝	5¹⁄₁₆-5⅛
D. Krone	8⅞-9⅜	8¾-9¼	9-9½	8½-9	8⅜-8⅞	8¼-8¾
Asian $ (Sng)	7⁷⁄₁₆-7½	7⁷⁄₁₆-7⅝	7⁷⁄₁₆-7⅝	7⅜-7½	7⅜-7½	7⅜-7½

Long-term Eurodollars: two years 7⅜-7½ per cent; three years 7⅞-8 per cent; four years 8-8⅛ per cent; five years 8¼-8⅜ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

MONEY MARKETS

London rates steady

Interest rates showed little change in London last week, after the Bank of England had made it clear an early cut in clearing bank base rates, so soon after the reduction on March 19, would not be welcomed.

UK clearing banks base lending rate 11½ per cent since March 19

The meeting of delegates from the Organisation of Petroleum Exporting Countries, which began in Geneva on March 16, led to hopes of a recovery in the price of spot oil. Reports from the Opec meeting were encouraging, as ministers strove for over a week to agree on cut backs in oil production.

A reduction to 14m barrels a day was looked for, but agreement on which countries should bear the brunt of the cut backs proved impossible, and the meeting broke up in disarray.

A resumption is tentatively scheduled for April 15, but judging from the last meeting there is little prospect of agreement, and with the approach of warmer weather in the Northern hemisphere, there seems little chance of a significant rise in oil prices.

The market will be watching sterling, to see whether there is any impact from the oil market, and this will be a major factor in deciding if interest rates can be cut later this month. The other important events are likely to be the release of UK money supply and bank lending figures on April 9, and a speech by Mr Nigel Lawson, Chancellor of the Exchequer, at a City dinner on April 16.

NEW YORK RATES

(4 pm)

Prime rate	9.00
Broker loan rate	8¾
Fed funds	7³⁄₁₆
Fed funds at intervention	(—)

Treasury Bills & Bonds

One month	6.23
Two month	6.46
Three month	6.54
Six month	6.59
One year	6.71
Two year	6.97
Three year	7.07
Four year	7.17
Five year	7.27
Seven year	7.29
10 year	7.42
30 year	7.54

BANK OF ENGLAND TREASURY BILL TENDER

	Mar. 27	Mar. 21		Mar. 27	Mar. 21
Bills on offer	£100m	£100m	Top Accepted rate of discount	10.7495%	10.8297%
Total of applications	£584m	£376m	Average rate of discount	10.7440%	10.7831%
Total allocated	£100m	£100m	Average yield	11.04%	11.08%
Minimum accepted bid	£97.32	£97.30	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	60%	34%			

FT LONDON INTERBANK FIXING

(11.00 a.m. March 27)

Three months US dollars		Six months US dollars	
bid 7 5/16	offer 7 7/16	bid 7 5/16	offer 7 7/16

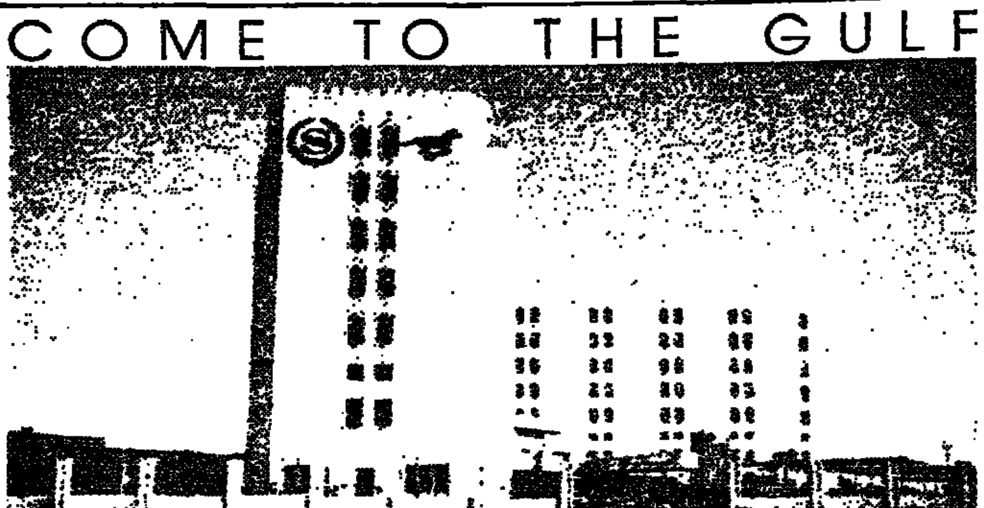
£ WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on March 27, 1986. In some cases rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on US dollar parities and going sterling-dollar rates; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers' rates; (cm) commercial rate; (ch) convertible rate; (fn) financial rate (exC) exchange certificate rate; (nc) non commercial rate; (nom) nominal; (o) official rate; (sg) selling rate; (c) controlled rate; (u) unified rate.

COUNTRY	CURRENCY	VALUE OF £ STERLING
Afghanistan	Afghani	99.00
Albania	Lek	10.16
Algeria	Dinar	7.10
Andorra	French Franc	10.6175
	Spanish Peseta	216.75
Angola	Kwanza	43.9765
Greenland	Danish Kroner	12.73
Grenada	E. Caribbean $	4.01
Guadaloupe	Local Franc	10.6175
Guam	U.S. $	1.4840
Guatemala	Quetzal	1.4840
Peru	Inti	exc(A)20.5075(16)
Philippines	Philippine Peso	29.50
Pitcairn Islands	£ Sterling	—
	New Zealand $	2.7680

‡ Rate is the transfer market (controlled). ‡‡ Now one official rate. (1) Essential goods. (2) Preferential rate for priority imports such as foodstuffs. (4) Preferential rate for public sector debt and essential imports. (5) Preferential rate. (6) Free rate for luxury imports, remittances of money abroad and foreign travel. (7) Parallel rate. (9) Banknote rates. (10) Rate for exports. (14) Nearly all business transactions. (15) Vietnam:—1 new dong equals 10 old dongs. (16) Peru:—1 Inti equals 1,000 soles. (17) Israel:—1 new shekel equals 1,000 old shekels. (18) Aruba florin:—new currency introduced January 1, 1986. (19) Guinea Republic:—franc, new exchange rate announced. (20) Brazil:—1 cruzado equals 1,000 cruzeiros.



APPOINTMENTS

Board changes at Rank Xerox

Mr David Kearns, chairman and chief executive officer of XEROX CORPORATION, has been appointed non-executive chairman of RANK XEROX LIMITED, from April 1. He takes over from Mr Hamish Orr-Ewing, chairman since 1979, who is retiring after 20 years with the company. At the same time, Mr Roland Magnin, managing director of Rank Xerox Limited, has been appointed additionally chief executive officer of the company, in which role he becomes the senior public spokesman in all Rank Xerox territories.

★

Appleyard Group has agreed to release Mr John Tuke, managing director, so that he can become chief executive of the KENNING MOTOR GROUP.

★

HEALTH FIRST, Bournemouth, a private medical insurance organisation from Mutual of Omaha International, has appointed Mr Christopher J. Long as financial director and Mr Geoffrey Bowers as company secretary.

★

Mr R. Ian Northern has been elected president for 1986-87 of the BRITISH COUNCIL OF SHOPPING CENTRES. He is a non-executive director of Capital & Counties, Inner City Enterprises and Milton Keynes Shopping Centre Management Co.

★

Mr Paolo Tosi has been appointed managing director of BRITISH OLIVETTI. Mr Tosi, who joined the Olivetti Group in 1961, was managing director of the Olivetti subsidiary in South Africa.

★

Mr J. Brian Burdekin is to join the board of TAYLOR

Mr Roland Magnin, chief executive officer of Rank Xerox

WOODROW INTERNATIONAL from March 31. He is replaced as managing director of Teamwork Corporation Sdn Bhd and as a director of Teamwork Malaysia Sdn Bhd, related companies of Taylor Woodrow International based in Kuala Lumpur, Malaysia, by Mr Rod G Franks who was general manager of Taylor Woodrow-Towell Co (LLC), Oman. In his new role, Mr Burdekin will be responsible for the operations of Arcon (Singapore) Pte and P T Arcon Prima Indonesia, which both supply and erect prefabricated buildings in the Far East. He will also be responsible for Taylor Woodrow International's operations in Indonesia and the mechanical and electrical division of Taylor Woodrow International, which currently operates in Oman and Ghana and has recently registered a company in Malaysia.

Mr Edwin F. H. Bassett and Mr Douglas J. Harman have been appointed directors of NATIONAL WESTMINSTER INSURANCE SERVICES, broking subsidiary of National Westminster Bank, from April 1. Mr Bassett will be taking charge of a new autonomous unit—technical services department—while Mr Harman becomes life production director.

★

Mrs Sheila M. Kirk, director of K. & T. Fixings (Southern), has been elected president of the FEDERATION OF BUILDING SPECIALIST CONTRACTORS for 1986-87.

★

The ISLE OF MAN STEAM PACKET has appointed as chief executive, Mr David Dixon, presently director of Associated British Ports, who will take up his post in May.

★

Mr Terry C. Monk has joined BRADSTOCK & THOMPSON (L&P) and been appointed managing director. Mr Geoffrey Smith has been appointed deputy chairman.

★

YORKSHIRE BANK has appointed Mr Dennis Pearson as assistant general manager (advances) and Mr David Knight and Mr Michael Allsopp as controllers (advances).

★

Mr Alan McNeill, group retail sales director, of Next Retail, and Mr Stuart Rowland, systems and distribution director, of Next, have joined FOCUS SHOES, UK shoe retailing subsidiary of Ward White Group. Mr McNeill becomes operations director and Mr Rowland becomes systems and distribution director.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

April 2-4
London Book Fair (01-940 6065) Barbican Centre

April 3-9
British International Antiques Fair (021-780 4171) NEC, Birmingham

April 8-10
National Pub, Club and Leisure Show (01-222 8341) Olympia

April 8-10
International Helicopter Technology and Operations Conference and Exhibition (01-549 5831) Aberdeen

April 14-18
International Fire and Security Exhibition and Conference — IFSEC (01-446 8311) Olympia

April 15-17
National Welding Exhibition — NORTHWELD (0403 68747) Manchester

April 21-25
International Brewing, Bottling and Allied Trade Exhibition—BREWEX (021-705 6707) NEC, Birmingham

April 21-25
International Packaging Exhibition—PAKEX (021-705 6707) NEC, Birmingham

April 29-May 1
British Electronics Week (0799 26699) Olympia

May 11-14
Business to Business Exhibition (01-729 0677) Barbican Centre

May 11-18
London International Furniture Show (01-385 1200) Earls Court

May 13-16
Communications Equipment and Systems Exhibition—COMMUNICATIONS (021-705 6707) NEC, Birmingham

May 18
Antiques Fair (01-883 7061) Alexandra Palace

May 20-24
Chelsea Flower Show (01-834 4333) Royal Hospital, SW1

OVERSEAS TRADE FAIRS

April 14-19
Mini/Micro Computers, Software and Software Packages Exhibition—SPECIAL SICOB (01-439 3964) Paris

April 20-24
Third Saudi Oil Show (01-486 3741) Al-Khobar

April 22-26
International Packaging Exhibition—PROPACK (021-705 6707) Brussels

April 22-25
International Traffic Engineering Trade Fair (01-437 2175) Amsterdam

May 2-15
International Printing and Paper Fair—DRUPA (01-493 3893) Dusseldorf

May 5-8
Business Efficiency, Office Automation and Business Communication Exhibition — BEE/OFEX (01-855 7777) Hong Kong

May 13-15
Production, Organisation and Technical Aspects of Shows & Meetings, Trade Fair and Congress — SHOWTECH (01-740 4444) Berlin

May 28-June 4
Mechanical Handling, Machine Tool & Products Exhibition (01-439 3964) Paris

BUSINESS AND MANAGEMENT CONFERENCES

April 7-8
FT Conferences: Technology and the New Securities Markets (01-621 1355) Hotel Inter-Continental, W1

April 11
Nolan, Norton / BIM: Creating wealth in the 90s (0536 204222) Bowater House, SW1

April 14-15
European Study Conferences: The London International Construction Conference (0572 822711) Hilton Hotel, W1

April 14-15
FT Conferences: The fourth manufacturing automation forum (01-621 1355) Hotel Inter-Continental, W1

April 15-16
IBC: Marketing in the travel industry (01-236 4080) Portman Hotel, W1

April 15
Oracle Business Information: Tax planning for the single contract self-employed (01-727 3503) 22 Portman Close, W1

April 16
Information for Industry: The Middle East—the changing face of business (01-637 1019) Cumberland Hotel, W1

April 17-18
Institute for International Research: The financial, commercial and entrepreneurial opportunities for prospering through privatisation (01-434 1017) 116 Pall Mall, SW1

April 20-22
The Economist: Entrepreneurship in practice—developing and managing innovation in large corporations (01-839 7000) Ettington Park Hotel, near Stratford upon Avon

April 21-22
Airfinance Conferences: The Annual Airfinance Conference (0376 62262) Plaza Hotel, New York City

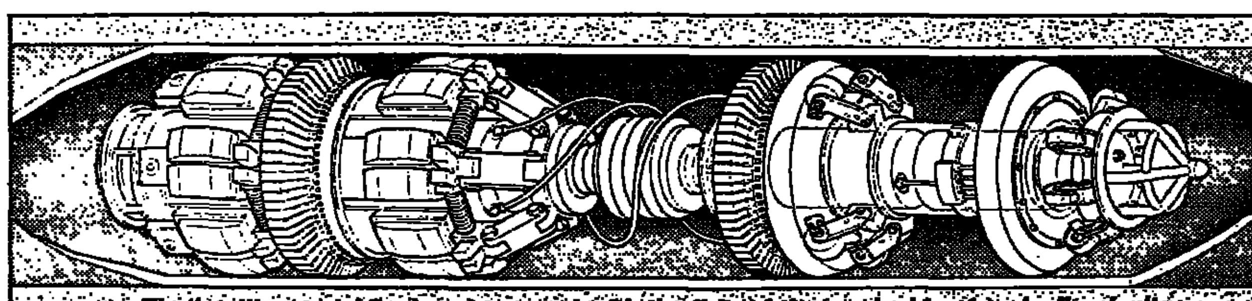
April 22-23
Institute for International Research: Cashing in on plastic card evolution (01-434 1017) 22 Portman Close, W1

April 22-23
FT Conferences: The prospects for tourism in Britain (01-621 1355) Hotel Inter-Continental, W1

April 23
Institute of Directors: Coping with success (01-839 1233) 116 Pall Mall, SW1

April 23-24
Westminster & City: Regulating the marketing of life assurance and unit trusts (01-582 7245) Hilton Hotel, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.



The intelligent pig. Designed to travel with the flow of the gas looking for pipeline faults.

Legal Notices

Notice to the holders of Bonds of the issue of 11.50% US$ 100,000,000 1980/88 made by

THE EUROPEAN COAL AND STEEL COMMUNITY

The Commission of the European Communities announces that the instalment per May 15, 1986 of US$25,000,000 has been effected by drawing by lot on March 14, 1986 in presence of a notary public.

Numbers drawn by lot:

Nos. 3454 to 12303 included taking previous instalments into account.

The Commission of the European Communities has decided to reimburse anticipatively the outstanding amount of US$50,000,000 at 100½% of the nominal value.

The bonds will be redeemable with coupons May 15, 1987 attached and are repaid according to the terms and conditions of the bonds.

Notice of Prepayment

THE YASUDA TRUST AND BANKING COMPANY, LIMITED
(Incorporated with limited liability in Japan).

U.S. $25,000,000
Floating Rate Certificates of Deposit

Issued on 11th May, 1983.
Maturity Date 14th May, 1987.
Callable in May, 1986.

NOTICE IS HEREBY GIVEN in accordance with the conditions of the above Certificates of Deposit ("the Certificates") as printed on the reverse of the Certificates that The Yasuda Trust and Banking Company Limited ("the Bank") will prepay all the outstanding Certificates on 14th May, 1986, ("the Prepayment Date") at their principal amount.

Payment of the principal amount together with accrued interest to the Prepayment Date will be made on the Prepayment Date against presentation and surrender of the Certificates at the London Branch of the Bank, Garden House, 18 Finsbury Circus, London EC2M 7BP.

Interest will cease to accrue on the Certificates on the Prepayment Date.

By: THE FUJI BANK LIMITED, LONDON
Agent Bank.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE:
CONTINENTAL AIRLINES CORPORATION
CONTINENTAL AIR LINES INC and TEXAS INTERNATIONAL AIRLINES INC
TXIA HOLDINGS CORPORATION
TXIA FINANCE (EUROPE) BV
TEXAS INTERNATIONAL AIRLINES CAPITAL NV and
TEXAS INTERNATIONAL AIRLINES FINANCE NV
DEBTORS

CASES Nos. 83-04019-H2-5 through 83-04022-H3-5
CASES Nos. 85-05481-H3-5 through 85-05483-H3-5
CONSOLIDATED UNDER CASE No. 83-04019-H2-5

NOTICE AND ORDER TO CREDITORS AND EQUITY SECURITY HOLDERS CONCERNING MOTION FOR APPROVAL OF AGREEMENT WITH TEXAS AIR CORPORATION RELATING TO THE REDEMPTION OF THE 7½% CONVERTIBLE SUBORDINATED DEBENTURES DUE 1993 OF TEXAS INTERNATIONAL AIRLINES FINANCE NV

TAKE NOTICE:

(1) On March 17 1986 the above referenced Debtors (the "Debtors") filed with this Court a Motion for Approval of Agreement with Texas Air Corporation relating to the redemption of the 7½% Convertible Subordinated Debentures due 1993 of Texas International Airlines Finance N.V. (the "Motion").

(2) A hearing on the Motion will take place before the United States Bankruptcy Court for the Southern District of Texas, Houston Division, on April 8 1986 at 9.30 a.m. The hearing will take place before the Honorable T. Glover Roberts, United States Bankruptcy Judge, 7th Floor United States Courthouse, 515 Rusk Avenue, Houston, Texas 77002.

(3) Any person objecting to the entry of an order approving the relief requested in the Motion must file a written objection with the Bankruptcy Clerk, United States Bankruptcy Court, 515 Rusk Avenue, Houston, Texas 77002 on or before 12.00 noon on Monday, April 7 1986.

(4) A copy of the Motion, with a copy of the Redemption Agreement attached as an exhibit thereto, can be obtained by contacting counsel for the Debtors, Mr Lenard M. Parkins and Mr John F. Higgins, Sheinfeld, Maley & Kay, 3700 First City Tower, Houston, Texas 77002, telephone number (713) 658-8881.

(5) Counsel for the Debtors is directed to deliver, by courier, copies of the Motion to all persons requesting copies thereof.

(6) Copies of any objections to the Motion must be personally served on counsel for the Debtors, Mr Lenard M. Parkins at the address set out in paragraph 4 above, on the date the objection is filed with the Clerk of the Bankruptcy Court.

IT IS SO ORDERED, this 28th day of March 1986
S. T. Glover Roberts
UNITED STATES BANKRUPTCY JUDGE

FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

Equity Fin Tst Hldgs 8pcLn 1985-2000 4pc
Erskine House 5½pcLn 1982-87 2¾pc
Essex Water 8pcPf 1989 4pc. 10pcPf 1986 5pc
Estates Prop Inv 10¾pcLn 1994-99 5⅜pc
Euston Centre Props 10.4pc1stDb 1992-97 5.2pc
Eva Inds 6½pcDb 1985-90 3¼pc
Ewart New Northern 8½pcLn 1990-95 4¼pc
External Inv Tst 8pcLn 2003-08 4pc
Farrel Bridge 6pcPf 2.1p
Fine Art Devels 8½pcLn 1986-91 4¼pc
Fine Spinners Doublers 4pc1stDb 2pc
First National Fin 9½pcLn 1992 4¾pc
First National Secs 13½pcLn 1987 6¾pc
Fisons 5¾pcLn 2004-09 2⅞pc
Flag Inv 10½pcDb 1991-96 5¼pc
Foreign Col Inv Tst 5pcPf 1.75p
Formminster 11pcPf 5.5p
Fundinvest 7pcPf 2.45p
GATX 30cts
GEI Intnl 10pcLn 1987-92 5pc
General Cons Inv Tst 7.6p
General Electric Overseas Cap 5½pcLn 1985-93 2¾pc
General Instrument 6.25cts
Glanfield Lawrence 6pcPf 2.8p
Globe Inv Tst 11½pcLn 5¾pc
Glynwed Intnl 10¾pcLn 1994-99 5⅜pc
Govett High Inc Gilt Fd 1.5p
Govett Strategic Inv Tst 11½pcDb 2014 5¾pc
Grand Met 10pcLn 1991-96 5pc
Gt Portland Ests 8½pc1stDb 1990-95 4¼pc
Great Universal Stores 7½pcLn. 1983-88 3¾pc
Greenall Whitley 8pcPf 4p
Greenhaven Secs 6pc1stDb 1983-88 3pc 6½pc1stDb 1983-88 3¼pc. 7½pcLn 1991-96 3¾pc
Gresham Tst 6½pcLn 1988-93 3¼pc. 7¼pcLn 1986-91 3⅝pc. 8pcLn 1988-93 4pc
Greycoat 13.85pcLn 1990-92 6.925pc
Grovebell Grp 8pcPf 3.15p
Guard Bridge Paper 6¼pcDb 1984-88

...

Public Service Electric and Gas 71cts
RFD 7½pcDb 1986-91 3¾pc
Readicut Intnl 5¾pc2ndPf 2.0125p. 6pc Pf 1.05p. 8¾pcLn 4⅜pc
Redfearn National Glass 7pcPf 2.45p. 7pc2ndPf 2.45p
Reed Intnl 7pcDb 1983-88 3.47534pc. 7pcDb 1987-92 3.7534pc. 7½pcDb 1987-92 3.72466pc. 7½pcLn 1996-2001 3¾pc. 7pcLn 1987-92 3½pc
River and Mercantile Trust 8½pcDb 1989-1994 4¼pc
Rockware 7.7pc2ndPf 3.85p. 8pcLn 1995-1999 4pc
STC Distributors 7¼pcDb 1990-95 3⅝pc. 8½pcDb 1990-95 4¼pc
St John Del Rey Mining 70cts
S and U Stores 6pcPf 2.1p
Safeway Stores 42.5cts
Salvesen (Christian) 5.6pcPf 2.8p
Sarakreek Hldg N-V $1
Scapa 8pcLn 1988-93 4pc
Scottish and Mercantile Invest 7½pcPf (£1) 2.625p
Industries 5¾pcLn 1994-99 2⅞pc. 7¼pc Ln 1994-99 3⅝pc
Scottish Mortgage and Trust 5¼pcPf 1.8375p. 4¼pcPf 1.475p. 4pcPf 1.4p. 8-14pc stpd Int Db 2020 5½pc
Scottish Road Services 7pcPf 2.45p. 6pc 1stDb 1983-88 3pc. 7pc1stDb 1982-87 3½pc
Securities Trust of Scotland 4½pcPf 1.575p. 12pcDb 2013 6pc
Senior Engineering 9.6pcLn 1991-96 4.8pc
Sevalco 11pcDb 1991-96 5½pc
Shires Invest 11pcLn 2003-04 5½pc. New 11pcLn 2003-04 6.83pc
Simpson (S.) 5pcPf 1.75p
600 Grp 4½pcPf 1.575p. 6½pc2nd Pf 2.275p. 8½pcLn 1987-92 4¼pc. 11pc Ln 1992-97 5½pc
Sketchley 4.2pcPf 2.1p
Smith (W. H.) 5¾pcPf 2.875p. 3¾pcPf 1.875p
Smith St Aubyn 6pcPf 2.1p. 9½pc2ndPf 4.75p. 7pcLn 1986-91 3½pc
Standard Chartered 12⅞pcLn 2002-07 6⁷⁄₁₆pc

...

Burton Group 8pcLn 1998-2003 4pc. 9½pc Ln 1998-2003 4¾pc
Callyns 6½pc1stPf 2.275p. 10pcPf 5p
Cape Indus 8.4pcPf 4.2p. 10pcDb 1986-1991 5pc
Carclo Eng Group 10½pcPf 5.25p. 10pc Pf 5p
Cement-Roadstone 8pcDb 1986-91 4pc
Charter Trust Agency 1.5325p
Chemical New York 65cts
Clayton Dewandre 18pcDb 1993-95 8pc
Colne Valley Water 3.5pc (fmly 5pc) 1.75p. A 7pc (fmly 10pc) 3.5p. C 7pc (fmly 10pc) 3.5p. 4.9pc (fmly 7pc) 2.45p. 2.8pc (fmly 4pc) Pf 1.4p. 4.55pc (fmly 6½pc) Pf 1982-87 2.275p. 4.025pc (fmly 5¾pc) Pf 1988-93 2.0125p. 6pcPf 1990 3p
Comm Bk Wales 13½pcLn 1995-97 6¾pc
Conversion 3½pcLn 1¾p
Corp of London 3pc 2307 1½pc
Courtaulds Clothing 7½pcPf 2.625p
Cowan, de Groot 1.25p
Craig Rose 5pcPf 1.75p
Croda Chemicals 6¾pcDb 1982-87 3⅜pc
Cropite Grp 14pcDb 7pc
Crown Zellerbach 25cts
Daily Mail Gen Tst 5pcPf 0.875p
Dewhurst Partner 0.7p. A NV 0.7p
Domino Print Sciences 1p
Drayton Far East Tst 0.7p
Drayton Prem Inv Tst 4pcDb 2pc
Drayton Japan Tst 1p
Dubilier 11pcPf 3.85p
Duckham (Alex) 7pcDb 1987-92 3½pc
East Anglian Water 3.5pc (fmly 5pc) 1.75p. 3.5pc (fmly 5pc) 1.75p. 9pcPf 1987 4.5p. 7pcPf 1988 3.5p. 3½pcDb 1¾pc. 4pcDb 2pc. 5pcDb 2½pc. 7pc Db 1987-89 3½pc. 7½pcDb 1991-92 3¾pc. 9pcDb 1992-94 4½pc. 11.5pc Db 1995-97 3.261p
East Surrey Water 7pcPf 1973 3.5p
East Worcs Water 7pc (fmly 10p) 3.5p. 3.5pc (fmly 5pc) 1.75p. 3.85pc (fmly 5½pc) Pf 1.925p. 2.8pc (fmly 4pc) (1935) Pf 1.4p. Do. 1941 Pf 1.4p
Eastbourne Water 8⅔pcPf 1995 4.344p. 4.2pc (fmly 6pc) Pf 1985-87 2.1p
Eldridge Pope 4pc1stDb 2pc
Equipu 1.6p
Essex Water 11.5pcDb 1995-97 3.261p. 11.20pcDb 1995-97 3.175p
Extel Grp 10½pcPf 5.25p
Farnham 12.5pcPf 6.25p
Ferranti 3.5pc2ndPf (£1) 1.75p
First Chicago 33cts
Fleming American Inv Tst 6pcDb 1976-86 3pc. 6½pcDb 1976-86 3¼pc
Fleming Far East Inv Tst 4½pcPf 1.575p. 5pcPf 1.75p
Fleming Univ Inv Tst 5pcPf 1.75p
GEC-Elliott Auto 5¼pcDb 1985-90 2⅝pc. 6½pcDb 1989-94 3¼pc. 6½pcDb 1981-86 3¼pc
GTE Corp 75cts
Gaunt (Rowland) 1p
Gen Cons Inv Tst 5½pcPf 1.925p
Glass Glover Grp 2.3p
Glaxo Grp 6¾pcLn 1985-95 3⅜pc
Goring Kerr 7p
Grainger Tst 11¼pcDb 2024 5⅝pc
Grand Met 7½pcPf 2.625p. 4¾pcPf 1.6625p
Greenfriar Inv 1.7p
Greenwich (London Boro) 11¼pcRd 1986 5⅝pc
Guinness 8½pcLn 1996-2001 5.0316p
Gulf Western Inds 22½cts
Hallite 3p
Hampton Tst 11⅛pcDb 2025 5.05958p
Hanson Tst 5.75pcPf 3.836p
Hardys Hansons 6pcPf 2.1p
Higsons Brewery 6½pcPf 2000-05 3¼pc
Hill (Philip) Inv Tst 5¼pcPf 1.8375p
Hollas Grp 1.1p
Hull Cpn 2½pcRd 1938 1¼pc. 3½pc (2nd Iss) 1¾pc. 3½pc (2nd Iss) 1¾pc
Hunterprint Grp 6½pcPf 3.25p
ITT Cpn 25cts
IC Ind 35cts
Illingworth Morris 6½pcPf 2.275p. 6½pc

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BOC 12½pcLn (2012-17) 6¼pc
Birmid Qualcast 3p
E-Systems Inc 12.5cts
Evode Group 2.28p
Granada Group 4.57p
Hamilton Oil 5cts
Hill and Smith Hldgs 2.6p
ICI 20p
Jos Hldgs 1.15p
Mansfield Brewery 11½Db (2010) 5.75pc
Mountleigh Group 4.55p
Newman Tonks Group 3.85p
Romney Tst 3.35p
Security Pacific Cpn (1992) $207.81
TACE 4.55p
Throgmorton Tst 5.6p
United Packaging 1.4p
Williams (Fed) Leisure 0.49p

THURSDAY, APRIL 3

COMPANY MEETINGS—
F. and C. Enterprise Tst, 1, Laurence Pountney Hill, EC, 12.15
Newbold and Burton Hldgs, Premier Works, Brook St, Sileby, Leics, 11.00

BOARD MEETINGS—
Finals:—
Ealing Electro-Optics
Empire Stores (Bradford)
Ibstock Johnsen
Morrison (Wm.) Supermarkets
Reckitt and Colman
Wayne Kerr
Weir

Interims:
Acorn Computer
Burton
Druck
Merivale Moore

DIVIDEND & INTEREST PAYMENTS—
BOC Group 5.53p
Estates Property Inv 3p
Fleming Fledgeling Inv Tst 1.5p
Folkestone Dist. Wtr. 7pc (Fmly 10pc) Max 3.5p. 4.9pc (Fmly 7pc) Max 2.45p. 4.9pc (Fmly 7pc) Max (1953 Iss) 2.45p. 3.5pc (Fmly 5pc) Max 1.75p
Genbel Invs 75cts
Gestetner Hldgs 1p
McAlpine (Alfred) 8.7p
Mid-Sussex Wtr 12pcDb (1987-89) 6¼pc
Moran Tea 7.5p
Newbold Burton Hldgs 1.54p
Second Alliance Tst 6p. 4½pcPf 1.575p
Sinclair (Wm) Hldgs 1.65p
Victor Products 5p

FRIDAY, APRIL 4

COMPANY MEETING—
St Andrew Tst, 29, Charlotte Square, Edinburgh, 12.30

BOARD MEETINGS—
Finals:—
Britannia Arrow
Chepstow Racecourse
North British Canadian Inv.
Sutherland (E.T.)

Interims:
Save and Prosper Sterling Deposit Fund

DIVIDEND & INTEREST PAYMENTS—
Blagden Inds 3.7p
Browning-Ferris Inds 16cts
Burtonwood Brewery 7pcPf 2.45p
City Acre Prop Inv 10.2pcDb (1991-96) 5.1p
Dyson (J. J.) 2p. Non-vtg A 2p
Electron House 1.4p
English Scottish Investors 0.9p. B 0.021875p. 5pcPf 1.75p
F and C Enterprise Tst 0.105p
Fleming Enterprise Inv Tst 3p
Gartmore Information 0.675p
Group Investors 1.6p
Hillards 7p
Hunterprint Group 3.2p
Imperial Group 6.6p
Lawtex 1p
Lloyds Bank 13.5p
Lonrho 8p. Do. (Rfd 1/10/85) 1p
Midland Bank 14.5p
Natl Westminster Bank 18.2p
Peerless 2.1p
Plastic Construction 1.964p
Polly Peck Intl 3.75p
Polypipe 1.1p

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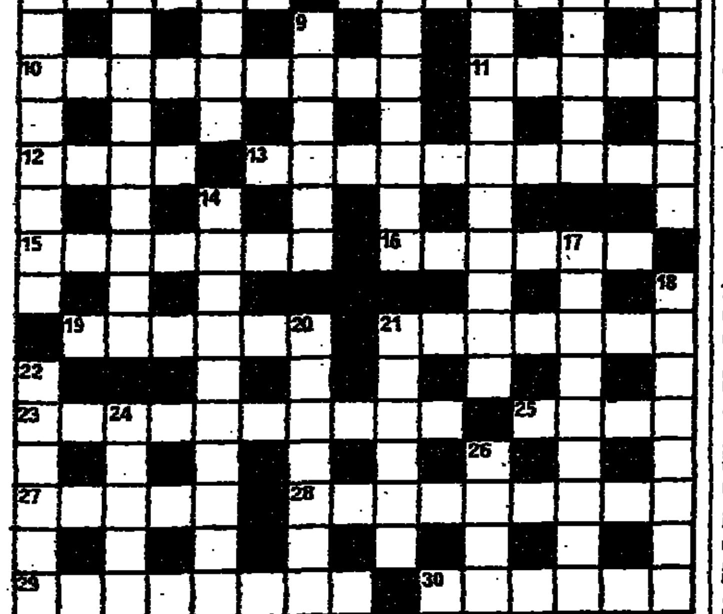
F.T. CROSSWORD PUZZLE No. 5,985

QUARK



ACROSS

1 Question possibly seen in College (6)
4 Related to 1 ac., that is about the end (Not standard) (8)
10 He beats T.T., going wild, under most favourable conditions (2,3,4)
11 Sort of atmosphere with upper-class English composition (5)
12 Queue to follow (4)
13 Cram in such a vegetable? (6-4)
15 Take figures from instrument to study at a distance (4,3)
16 The insect's a good listener with something up top (6)
19 Gun (if big) causing the bar to be violent? (6)
21 Studies lifts? (5,2)
23 For half the fixtures sides rest in a way round me (4,2,4)
25 Port with some lemonade. Nice? (4)
27 The animal artist often hooded (5)
28 Disconcerted, and in the dumps, maybe (6,3)
29 Bankrupt's luck made to change (4,4)
30 Rubber having long spells leading to hesitation (6)

DOWN

1 Digs portions (8)
2 Excite tar, tipsy, to get out of mess (9)
3 Scottish veg writer raises to take in English (4)
5 Fighting could be in camp, we hear (7)
6 Attack bankrupt and risk everything (2,3,5)
7 Old fire has top off one (5)
8 Stage orders when they go out (6)
9 Odd buffer gets a snub (6)
14 Against the strip—it's prohibited (10)
17 Advancing imperceptibly in man's debts (9)
18 Pinter's society gets round lady (5)
20 Cultivated patch I love growing without light (7)
21 Distinctive tone that I'm breaking in, inwardly (6)
22 Being at the top, a friend embraces being in charge (6)
24 Family record book (5)
26 The vessel every waterman easily rows initially (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames 0491 576868

International Growth	260.9	280.0	+1.1	1.01
Income	187.8	201.1	-1.0	4.82
Worldwide Recovery	146.2	156.9	+0.9	1.60
American Growth	69.1	74.2	-0.7	0.82
Intl. Emerging Cos.	78.0	81.8		0.62
Far East Growth Fd	63.1	67.8	+0.8	1.56
European Growth Fd	56.2	60.3	+0.5	1.80

Prolific Unit Trusts
222 Bishopsgate London EC2 01-247 7544

Prolific American Inc	56.6	60.0		4.87
Prolific Far East	149.4	158.4	+2.2	0.25
Prolific Extra Inc.	91.2	96.1	+0.4	5.02
Prolific Cvert & Gilt	95.6	101.4	-0.2	5.87
Prolific High Inc.	175.2	185.8	+0.8	4.09
Prolific Intl	106.2	112.6	+0.8	1.32
Prolific N. Amer	139.5	147.9	-0.4	2.06
Prolific Spec. Sits	197.5	209.4	+0.6	1.44
Prolific Technology	113.7	120.8	-0.3	0.56

Providence Capitol Fd. Mgrs. Ltd
30 Uxbridge Road, London W12 8PG 01-749 9111

Japan Inc.	65.6	69.8	-0.3	0.00
Japan Acc.	65.8	70.0	-0.3	0.00
Worldwide Inc	65.0	69.2	+0.1	1.41
Worldwide Acc.	65.9	70.1	+0.2	1.41
European Tst Inc	80.3	85.5	+0.4	0.64
European Tst Acc.	80.6	85.8	+0.4	0.64
North American Inc.	56.7	60.4	-0.3	1.64
North American Acc.	57.4	61.1	-0.4	1.64
UK Equity Inc	65.0	69.2	+0.5	2.62
UK Equity Acc	66.6	70.9	+0.5	2.62

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate London EC2R 6BA 01-588 3963

PM Equity Growth	59.0	63.2	+0.4	1.95
PM Income and Growth	57.7	61.8	-0.2	4.46

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-69 Ilford Hill Ilford, Essex IG1 2DL 01-478 3377

Holborn Comm Trust	52.4	55.7	+0.2	2.97
Holborn Equity Tst	405.4	431.2	+2.3	3.08
Holborn European Trust	77.7	82.6	+0.3	0.69
Holborn Gilt Tst	180.5	188.7	+0.3	8.13
Holborn High Inc	65.1	69.2	+0.4	6.25
Holborn Intl Growth	87.3	92.6	-0.2	0.92
Holborn Japanese Trust	74.7	79.4	+0.5	0.05
Holborn N. Amer. Trust	68.7	73.0		1.56
Holborn Spec Sits	62.4	66.3	+0.4	2.85
Holborn UK Growth	81.5	86.7	-0.5	2.32

Sun Life Trust Mgmt. Ltd
107 Cheapside London EC2V 6DU 01-606 6010

American Growth Acc.	31.1	33.1	+0.1	1.4
American Income Acc.	30.3	32.2		5.5
American Income Inc	29.9	31.8		5.5
European Growth Acc.	45.8	48.7	+0.4	0.8
Far East Growth Acc.	34.8	37.0		0.6
Intl Growth Acc.	31.7	33.8	+0.4	2.0
Japan Growth Acc.	45.4	48.3	+0.5	0.1
UK Growth Acc	35.8	38.0	+0.4	2.7
UK Income Acc	31.3	33.3	+0.3	5.3
UK Income Inc.	30.6	32.6	+0.4	5.3
Managed Growth Acc.	37.6	40.0	+0.2	1.9
Managed High Yield Inc	43.8	46.6	+0.3	7.0
Managed Income Inc	33.8	36.0	+0.6	3.5

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)
99-101 London Rd Sevenoaks 0732 450161

Equity Dist.*	262.0	277.2	3.53
Equity Acc.*	315.3	333.6	3.53
Fixed Int. Dist.†	120.0	124.3	10.88
Fixed Int. Acc.†	176.0	182.3	10.88

*Prices on Mar 12. Next dealing April 9
†Prices on Mar 5. Next dealing April 2

TSB Unit Trusts (b) (c) (y)
PO Box 3 Keens House Andover Hants SP10 1PG
0264 62188 Dealings to 0264 63432-3

TSB American	114.3	121.7	-0.1	0.97
Do Accum.	119.0	126.7	-0.1	0.97
TSB European		50.0		1.6
Do Accum		50.0		1.6
TSB Extra Income	105.5	112.3	+0.3	5.22
Do Accum	123.3	131.2	+0.4	5.22
TSB General	158.5	168.7	+0.9	2.64
Do Accum	258.0	274.5	+1.2	2.64
TSB Gilt & Fxd Int	52.1	54.3	+0.8	7.92
Do Accum	66.7	69.5	+1.0	7.92
TSB Income	214.6	228.3	+0.9	4.12
Do Accum	329.1	350.4	+1.3	4.12
TSB Pacific	130.7	139.1	+1.6	0.66
Do Accum	134.0	142.6	+1.7	0.66
TSB International	289.2	307.7	-0.1	1.66
Do Accum	355.1	377.8		1.66
TSB Natural Resources	45.2	48.1	-0.2	2.28
Do Accum	46.5	49.5	-0.2	2.28
TSB Scottish Opp.	59.9	63.8	+0.3	1.57
Do Accum	65.7	69.9	+0.3	1.57

3i Unit Trust Managers Ltd
2 St Mary Axe London EC3A 8BP 01-928 3356

Smaller Cos Fund	69.4	73.8	-0.1	0.1

Target Trust Mngrs. Ltd (a)(g)
Target Hse, Gatehouse Rd Aylesbury Bks (0296) 5941

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Seaford Life plc

Sharp (Albert E.) & Co.

Skandia Life Assurance Co Ltd

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Sun Life Pensions Management Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co. Ltd.

Teachers' Assurance Company Ltd

Transatlantic Life Assur Co Ltd

Trident Life Assurance Co Ltd

Tunbridge Wells Equitable

Tyndall Assurance/Pensions

UK Provident

Vanbrugh Life Assurance

Vanbrugh Pension Limited

Windsor Life Assur Co Ltd

Standard Life Assurance Company

OFFSHORE AND OVERSEAS

Actibonds Investment Fund SA

Adig Investment

Albany Fund Management Limited

Alliance Capital Management Intl. Inc.

Allied Dunbar International Fund Mgrs.

Arbuthnot Securities (CI) Ltd

Australian Gen Mngt Ltd

BAII Multicurrency (SICAV)

BIA Bond Investments AG

BNP Inv Mngmt (Jersey) Ltd

Julius Baer Bank & Trust Co Ltd

Bamford Brandt Guernsey Mngt. Ltd

The Bangkok Fund

Bank of America International SA

Barclays Unicorn International

Baring Fund Managers (Guernsey) Ltd

Baring International Group

Barrington Mngt (CI)—Barrington Fd

Bishopsgate Commodity Ser. Ltd

Brazil Capital Services Ltd

Bridge Management Guernsey Ltd

Bridge Management Ltd

Britannia Intl. Investment Mngmt Ltd

Brown Shipley Fund Mngt (CI) Ltd

Butterfield Management Co Ltd

CAL Investments (IoM) Ltd

CAL Investments (Bermuda) Ltd

Capital International

Capital Preservation Fund Intl.

Cater Allen Investment Management (CI)

Charterhouse Japhet

Charterhouse Japhet Currency Mngt. Ltd

Citibank (CI) Ltd

Cornhill Ins. (Guernsey) Ltd.

Cortexa International

Craigmount Fixed Int. Mngrs. (Jersey)

Credit Suisse

DWS Deutsche Ges. F. Wertpapiersp

Daehan Investment Trust Co. Ltd

Dartmouth International Fund Mgrs

Dean Witter World Wide Investment Trust SA

Delta Group

Deutscher Investment-Trust

Drexel Burnham Lambert

Dreyfus Intercontinental Inv. Fd.

Duncan Lawrie Inv. Mgt. Ltd

Dunedin Unit Trust Mngrs (Bermuda) Ltd

Dunn & Hargitt Group

EBC Trust Company (Jersey) Ltd

European Banking Company Ltd

The English Trust Group

Equity & Law International Fund Mgrs Ltd

Equity & Law International Life Assur Co Ltd

Ermitage Management Ltd

Ermitage Management Cayman Ltd

Eurolife Assurance Group

Eurotax Investments Ltd

Fidelity International

Fleming Group

Forbes Securities Management Ltd

Foreign & Colonial Management Ltd

Formosa Fund

Framlington Overseas Fund Mngt. Ltd

Frankfurt Trust Investment-GmbH

Friedsher Fund Limited

GT Management (UK) Ltd

Gartmore Fund Managers Ltd

Genfinance

Global Asset Management Corp.

John Govett Mngmt (Guernsey) Ltd

Granville Management Limited

Grindlay Management (Jersey) Ltd

Grofund Invest. Managers (Guernsey) Ltd

Guinness Mahon Fund Mgrs (Guernsey) Ltd

Guinness Mahon—Continued

Hambros Bank Ltd

Hambro Pacific Fund Mgmt Ltd

Hambros Fd Mgrs (CI) Ltd

Henderson Admin. (Guernsey)

Henderson Management SA

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Hill Samuel Investment Mgmt Intl SA

Holborn Fund Mngmt (Guernsey) Ltd

Holborn Fund Mngmt (Jersey) Ltd

IBF Management Services Inc

Investissements Atlantiques SA

Invicta Investment Management

Jardine Fleming & Co. Ltd.

Kleinwort Benson (Guernsey) Fd Mngrs Ltd

Korea International Trust

Lazard Brothers & Co (Guernsey) Ltd

Lazard Brothers & Co. (Jersey) Ltd

Lewis & Peat, Clarke (Guernsey) Ltd

Lloyds Bank Geneva

Lloyds Intl. Money Market Fund Ltd

Lloyds Life (Isle of Man) Ltd

M & G (Cayman) Ltd

M & G Island Fund

Man International Futures

Management International Ltd

Manufacturers Hanover Geofunds

Midland Bank Tst. Corp. (Jersey) Ltd

MIM (Jersey) Limited

Minerals, Oils Res. Shrs. Fd. Inc.

Murray, Johnstone (Inv. Adviser)

NEL Britannia Int Ass Ltd

NEL International Ltd

NM Income & Gwth Fd

Nat. Westminster Jersey Fd. Mgrs. Ltd

Newport International Management

Securities Selection Ltd

Nikko Intl. Cap. Mngt. Co (Europe) Ltd

Nomura Growth Fund SA

Northgate Unit Tst. Mngr. (Jersey) Ltd

North Star Group of Companies

Norway Fund Management A/S

PFC Internatl Portfolio Fd Mngt Ltd

Pacific Basin Fund

Pacific Growth Fund

Parister Bond Fund SA

Perpetual UT Mngrs (Jersey) Ltd

Phoenix International

Premium Life International Ltd

Prestige Management S.A.

Providence Capital International Ltd

Putnam International Advisers Ltd

Quantum Fund

Quilter/Heinold Commodities

Raiter International Management Ltd

Rea Brothers (IoM) Ltd

Rothschild Asset Management (CI)

Rothschild Australia Asset Mgmt Ltd

Rouse Woodstock (Bermuda) Limited

Royal Bank of Canada Funds

Royal Trust International Fd. Mngt. Ltd(s)

SCI/TECH SA

Sabre Futures Fund Ltd

Save & Prosper International

Scandinavian Bk Fd Mgrs Ltd

Schroder Mngt Services (Jersey) Ltd

J. Henry Schroder Wagg & Co Ltd

Schroder Fdn. Mgmt. Intl. Limited

Scrimgeour Kemp-Gee Mngmt., Jersey

Sentry Assurance International Ltd

Seoul International Trust

Seven Arrows Fund NV

Singer & Friedlander Ldn. Agents

Skandifond International Ltd

Societe Generale Merchant Bank plc

Standard Bank Fund Managers

Standard Chartered Off. Money Mkt Fund

Strategic Metals Corp plc Metal Funds

Strategic Metal Trust Mngrs. Ltd

Stronghold Management Limited

TSB Trust Funds (CI)

Taiwan (ROC) Fund

Target International Management Limited

Thornton Management Limited

Tokyo Pacific Holdings NV

Tokyo Pacific Hldgs. (Seaboard) NV

Top Brand Fund International

Tyndall Guardian Managers (Jersey) Ltd

Tyndall International Assurance Ltd

Tyndall-Guardian Mngt Ltd

M. G. Tyrrell & Co. Ltd.

US Federal Securities Fund SA

US Pacific Stock Fund

U.S. Treasury Securities Fund SA

Union Invest Fd Mgt Co SA Lcc

Union-Investment-Gesellschaft GmbH

Unit Trust Services (Jersey) Ltd

United Fund Managers Ltd

Viking Fund—SICAV

Warburg Investment Management Jersey Ltd

Warburg Inv Mngmt (Isle of Man) Ltd

Wardley Fund Managers (Jersey) Ltd

Wardley Investment Services Ltd

WestAven Secs. (Guernsey) Ltd

World Bond Fund

World Fund S.A.

World Wide Growth Management

Yamaichi Dynamic Mngt Co SA

Zero Bond Fund Limited

Money Market Trust Funds

The Charities Deposit Fund

The Money Market Trust

Oppenheimer Money Management Ltd

Money Market Bank Accounts

Adam & Co. plc

Aitken Hume

Allied Arab Bank Ltd

Bank of Scotland

Barclays Prime Account

Britannia Investment Services Ltd.

Charterhouse Japhet plc

Citibank Savings

Co-operative Bank Cheque & Save

Dartington & Co Ltd

Edward Manson & Co Ltd

Henderson Bank of Scotland

Legal & General (Money Mngrs) Ltd

Lloyds Bank PLC

Lombard North Central PLC

M & G/Kleinwort Benson

Midland Bank plc

Oppenheimer Money Mgmnt Ltd

Phillips & Drew Trust Ltd

Provincial Trust

Royal Bank of Scotland plc

Save & Prosper/Robert Fleming

Tyndall & Co

J. Henry Schroder Wagg & Co Ltd

Western Trust & Savings Limited

NOTES

TRADITIONAL OPTIONS

3-month call rates

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
19 Nov	19 May	Treas 3pc 1986	98[illegible]	14 10	3.04	11.27
19 Nov	19 May	Exch 10½pc 1986	99[illegible]	14 10	10.51	11.47
12 Dec	12 Jun	Treas 12pc 1986	100[illegible]	5 11	11.99	11.46
10 Jan	10 Jul	Treas 9½pc 1984-86	99[illegible]	12	8.55	10.77
29 Apr	29 Oct	Exch 14pc 1986	102[illegible]	24 3	13.72	10.30
21 May	21 Nov	Exch 2½pc 1986	96[illegible]	15 10	2.59	8.50
22 Jul	22 Jan	Exch 13¼pc 1987	102[illegible]	16 12	12.92	9.88
10 Aug	10 Feb	Treas 10¼pc Cv '87	100[illegible]	6 1	10.21	9.73
24 Aug	24 Feb	Exch 2½pc 1987	95[illegible]	20 1	2.62	8.28
6 Oct	6 Apr	Exch 10½pc 1987	100[illegible]	3 3	10.43	9.84
1 Nov	1 May	Funding 6½pc '85-87	97[illegible]	25 3	6.68	9.32
12 Dec	12 Jun	Treas 10pc 1987	100[illegible]	5 11	9.98	9.85
14 Jan	14 Jly	Treas 3pc 1987	93[illegible]	12	3.20	8.32
3 May	3 Nov	Treas 12pc 1987	103[illegible]	28 3	11.63	9.84
26 Jul	26 Jan	Treas 7¾pc 1985-88	97[illegible]	20 12	7.97	9.44
10 Nov	10 May	Exch 10½pc '88	102[illegible]	10	10.35	9.76
14 Dec	14 Jun	Treas 9¾pc Cv '88	100[illegible]	7 11	9.73	9.66
1 Jan	1 Jul	Transport 3pc '78-88	90[illegible]	5 11	3.33	7.90
25 Apr	25 Oct	Treas 9½pc '88	99[illegible]	19 3	9.55	9.76
22 Aug	22 Feb	Treas 11½pc 1989	104[illegible]	16 1	10.99	9.64
18 Oct	18 Apr	Treas 9½pc Cnv. '89	100[illegible]	12 3	9.44	9.27
15 Nov	15 May	Treas 3pc 1989	86[illegible]	9 10	3.46	7.84
14 Dec	14 Jun	Treas 10½pc 1989	102[illegible]	7 11	10.26	9.67
1 Feb	1 Aug	Exch 10pc 1989	100[illegible]	27 12	9.91	9.68
29 Mar	29 Sep	Exch 11pc 1989	104	20 2	10.57	9.60
15 Apr	15 Oct	Treas 5pc 1986-89	89[illegible]	10 3	5.58	8.50
15 May	15 Nov	Exch 10½pc Cv '89	107[illegible]	—	9.49	7.68

Five to Fifteen Years

Over Fifteen Years

Undated

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INT. BANK AND O'SEAS GOVT STERLING ISSUES

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LEISURE

NOTES

Unless otherwise indicated prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ∮ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend, cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ∥ No par value.

B Fr. Belgian Francs. Fr. French Francs. ★★ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend, cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	105		Fin 13% 97/02	£120½	+¼
Craig & Rose £1	£13½		Arnotts	350	
Finlay Pkg 5p	47		CPI Hldgs	65	
Holt (Jos) 25p	770		Carroll Inds	178	
IoM Stm £1	77		Dublin Gas	60	
			Hall (R. & H.)	66	−1
IRISH			Heiton Hldgs	28	−1
Fund 11¾% 1958	£101	+½	Irish Ropes	60	
Nat 9¾% 84/89	£99¼	+¼	Unidare	175xd	+35

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INTERNATIONAL APPOINTMENTS

Managing director elect at Banesto

BY DAVID WHITE IN MADRID

BANCO ESPANOL de Credito (Banesto), one of Spain's two largest commercial banking groups, has elected Mr Jose Maria Lopez de Letona, a former Governor of the Bank of Spain, vice-chairman and managing director.

He is expected to take over the day-to-day running of the bank under the 77-year-old Mr Pablo Garnica, who was prompted to the chairmanship two years ago. Mr Lopez de Letona, 63, an engineer by training, had a brilliant career during the Franco regime, under which he became Minister of Industry at the end of the 1960s.

He has been up to now chairman of one of Banesto's subsidiary banks, Banco de Madrid. In January he was appointed to the Banesto board, to replace another former Franco minister, Mr Gregorio Lopez Bravo, who died in an air crash last year.

Mr Lopez de Letona served as Bank of Spain Governor in the early post-Franco era, from August, 1976 to February, 1978. His association with the current Governor, Mr Mariano Rubio, who was appointed to the vice-governorship during Mr Lopez de Letona's term of office, is seen as improving the climate of relations between Banesto and the central banking authorities.

Marketing head at Mitel

BY BERNARD SIMON IN TORONTO

MITEL, the Canadian telecommunications equipment maker recently acquired by British Telecom of the UK, has named Mr Franklin Julian executive vice-president for sales and marketing in one of a number of senior changes designed to re-invigorate the loss-making Canadian company.

Mr Julian has held several positions with US telephone companies, most recently as vice-president for national sales of general business systems at American Telephone and Telegraph. British Telecom has indicated that the US market will be a major focus of Mitel's recovery efforts.

Earlier this year, BT's director of corporate marketing, Mr Peter Berrie, was appointed vice-president for international marketing at Mitel. In addition, BT has named three directors to the Canadian company's board. Mr Deryk Vander Weyer, BT's deputy chairman, has become chairman of Mitel. The company's two founders, Mr Terence Matthews and Dr Michael Cowpland, remain on the board but play a less active role in day-to-day management.

Mr Franklin Julian: taking charge of sales

Reorganisation at Canadian Imperial Bank of Commerce

BY OUR TORONTO CORRESPONDENT

CANADIAN IMPERIAL Bank of Commerce has appointed presidents of three new business units as part of a division of the bank along functional rather than geographical lines.

Mr Warren Moysey, 47, previously senior executive vice-president for domestic banking, becomes president of the worldwide personal banking division. Mr Alvin (Al) Flood, 59, formerly executive vice-president for international banking, will be in charge of *CIBC's entire corporate banking* operations. Mr Paul Cantor, 44, moves from executive vice-president, global treasury, to president of the worldwide investment banking unit. CIBC's chairman and chief executive officer, Mr Donald Fullerton remains president of the parent company.

The bank says that the unexpected resignation recently of Mr Peter Cole, senior executive vice-president for world finance and one of CIBC's most respected senior officers, was not connected to the reorganisation.

The creation of the new head office units follows an earlier split along functional lines at the bank's branches and its regional offices. Branches have been divided into commercial, full-service and consumer-*oriented units.*

CIBC, with assets of C$79bn (US$56bn), is one of North America's ten largest banks. It has 1,570 offices in Canada and another 100 outside the country.

Saba chief quits over policy

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

MR JAN PRISING, managing director of Saba—Sweden's third largest retail and wholesale group and one of the main companies controlled by Mr Erik Penser, the UK-domiciled *Swedish financier—has* resigned.

Saba says that he is leaving the company because of differences of opinion on "vital development and policy questions." Both Mr Prising and Saba have refused to elaborate on the reasons for his departure.

He is to be replaced as managing director by Mr Anders Lindstrom, formerly managing director of Bahco, the Swedish engineering company.

Saba suffered a fall of 9 per cent in profits last year before extraordinary items, appropriations and taxes to SKr 202m (US$27.7m) but extraordinary income from the sale of property and other assets helped to raise profits before tax and appropriations to SKr 411m.

Attorney takes Hispanoil post

ISTITUTO NACIONAL de Hidrocarburos (INH), the Spanish energy concern, has announced that Mr Rafael Pastor Garcia has been appointed secretary general of Hispanoil, one of INH's five major companies, which is involved in oil and gas exploration in Spain and abroad.

Mr Pastor, 42, is an attorney who has worked in the *public sector*, and whose work has lain mainly in public administration. His career covers experience in the Ministry of Finance in Murcia and Madrid, in the Legal Affairs Office in the Ministry of Industry and Energy, and in the Registry of the Industrial Property Commission. His work has included posts in the Consultant's Office and in litigious services at Banco Central and as secretary general at Banco de Valencia.

Communications role at Morgan Guaranty

MORGAN GUARANTY Trust Company of New York has appointed Mr Peter Vanderwicken senior vice president and head of corporate communications.

Mr Vanderwicken previously headed a management consulting firm, Vanderwicken and *Company. In his new position* he has overall responsibility for public relations, electronic media, advertising, and graphic design for the bank and other J. P. Morgan and Co operations worldwide.

WORLD STOCK MARKETS

AUSTRIA

Mar. 27	Price Sch%	+ or —
Credit'nst'lt pp *	2,300	.....
Goesser *	3,400	.....
Interunfall *	13,600	—30
Jungbunzlauer *	18,300	—500
Laenderbank *	2,160	—10
Perlmooser	690	—18
Steyr Daimler	156	—4
Veitscher Mag *	9,590	+40

BELGIUM/LUXEMBOURG

Mar. 27	Price Frs.	+ or —
B.B.L.	2,800	.....
Banq. Gen. Lux.	12,900	+150
Banq. Int.A.Lux	13,800	.....
Bekaert	12,100	—1,000
Ciment CBR	4,180	—100
Cockerill	164	—1
Delhaize	10,700	+200
EBES	4,650	—10
Electrobel	15,550	+25
Fabrique Nat.	2,160	+10
GB Inno BM	7,150	—60
GBL (Brux)	3,000	+305
Generale Bank	6,260	+160
Gevaert	6,590	—20
Hoboken	7,250	+50
Intercom	6,810	+30
Kredietbank	13,975	.....
Pan Hldgs	10,650	.....
Petrofina	7,120	+20
Royale Belge	24,100	+50
Soc. Gen. Belge	3,170	+160
Sofina	9,200	+340
Solvay	8,060	.....
Stanwick Intl	470	.....
Tractionel	5,980	+300
UCB	7,110	40
Wagons Lits	5,400	—40

DENMARK

Mar. 26	Price Knr %	+ or —
Andelsbanken	420	—4
Baltica Skand	565	+20
Cop Handelsb'nk	325	—2
D. Sukkerfab	415	.....
Danske Bank	375	.....
De Danske Luft.	1,840	.....
East Asiatic	288	—2
Forenede Brygg.	970	.....
Forenede Damp.	251	.....
GNT Hld	560	.....
I.S.S.B.	780	—10
Jyske Bank	785	.....
Novo Inds	1,300	.....
Privatbanken	281	—3
Provinsbanken	449	.....
Smidth (F.L.) B	314	.....
Sophus Berend	985	.....
Superfos	317	.....

FRANCE

Mar. 27	Price Frs.	+ or —
Emprunt 4½% 1973	1,555	—20
Emprunt 7% 1973	7,445	—96
Accor	449.5	+14
Air Liquide	679	+27
BIC	645	.....
Bongrain	1,959	+44
Bouygues	1,109	—1
BSN Gervais	4,110	—10
CIT Alcatel	2,305	+65
Carrefour	3,380	—70
Club Mediter'n	605	+27
Cie Bancaire	1,250	—5
Cofimeg	409	—1
Damart	2,120	+30
Darty	2,895	+15
Dumez S.A.	1,185	+31
Eaux (Cie Gen)	1,570	—50
Elf-Aquitane	234	+0.5
Essilor	2,459	+59
Gen.Occidentale	925	+16
Imetal	98	+5.8
Lafarge Coppee	1,315	—25
L'Oreal	3,390	—100
Legrand	3,790	—30
Maisons Phenix	317	—1
Matra S.A.	1,910	+55
Michelin B	2,970	+80
Midi (Cie)	6,080	+80
Moet-Hennessy	2,240	+60
Moulinex	88	+1
Nord Est	208	+3
Pernod Ricard	1,100	—20
Perrier	719	+45
Petroles Fra	337	—4
Peugeot S.A.	1,110	+22
Printemps (Au)	669	+39
Radiotech	865	+5
Redoute	2,490	+55
Roussel-Uclaf	1,565	+66
Sefimeg	485	—9
Skis Rossignol	1,375	+110
Telemec Elect	3,560	+45
Thomson (CSF)	1,159	+60
Valeo	560	.....

GERMANY

Mar. 27	Price Dm.	+ or —
AEG	332	—2.5
Allianz Vers	2,365	+25
BASF	320	+1
Bayer	339.5	+3.5
Bayer.Hypo	634	+9
Bayer-Verein	573	+13
BHF-Bank	522	.....
BMW	548	+8
Brown Boveri	290	+4
Commerzbank	322.2	+6.2
Cont'l. Gummi	228.3	+1.4
Daimler-Benz	1,323	+10.5
Degussa	461	+2.5
D'sche Babcock	220.5	+3.5
Deutsche Bank	826	+14.5
Dresdner Bank	438xr	+2
GHH	263	+4.5
Henkel	424	—27
Hochtief	900	—20
Hoechst	316	+3.5
Hoesch Werke	184	+2.2
Holzmann (P)	600	—13
Horten	237.5	+1
Hussel	505	+10
Karstadt	401	—1
Kaufhof	480	+16
KHD	313.5	+3.5
Kloeckner	97.5	—1
Linde	657	+1
Lufthansa	276	—2
MAN	202	+5
Mannesmann	273.5	+8
Mercedes Hld	1,165	+30
Metallgesell	354.5	+14.5
Muench Rueck	3,850	+10
Nixdorf	625.5	+36
Porsche	1,210	+10
Preussag	241	—0.5
Rhein West Elect	239	+2
Rosenthal	387	+7
Schering	595	+16
Siemens	690.5	+2.2
Thyssen	191.7	+2.1
Varta	351	—3
Veba	306.5	+4
V.E.W.	195	+3
Verein-West	510	+22
Volkswagen	583	—0.5

ITALY

Mar. 27	Price Lira	+ or —
Banco Com'le	28,580	+600
Bastogi-IRBS	799	+4
Centrale	4,580	—27
C.I.R.	10,750	+250
Credito Italiano	5,995	+20
Fiat	10,750	—50
Generali Assicur.	106,490	—710
Italcementi	70,995	—495
La Rinascente	1,425	—13
Montedison	4,400	+50
Olivetti	15,470	+1120
Pirelli Co	8,350	+120
Pirelli Spa	6,245	—6
Saipem	5,100	+40
Snia BPD	7,590	+50
Toro Assic	43,500	+800

NETHERLANDS

Mar. 27	Price Fls	+ or —
ACF Holding	292.5	+1.5
AEGON	104.8	+1
Ahold	82.4	+0.4
AKZO	170.8	+2.8
ABN	582	+6
AMEV	79	+1.5
AMRO	106.2	+1.2
Bredero Cert	209	—1
Bos Kalis Westm.	17.2	+0.5
Buehrmann-Tet.	149.5	+4.5
Calland Hlgs	23.7	—0.3
Dordtsche Pet'm	182	+1.3
Elsevier-NDU	181.5	+1
Fokker	84	+1
Gist Brocades	277.5	+4.6
Heineken	238.8	+0.3
Hoogovens	98.4	+3.1
Hunter Doug N/V	62.3	—2.7
Int Mueller	62.5	—0.8
KLM	53.9	+0.5
KNP	1258	+6
Naarden	52.7	—0.4
Nat Ned Cert	78.5	+1.6
Ned Mid Bank	209	—0.5
Nedlloyd	181.7	+3
Oce Grinten	447	.....
Ommeren (Van)	30.7	+0.2
Pakhoed	67.3	+2.2
Philips	64.7	+0.4
Robeco	91.4	—1.7
Rodamco	140.9	—0.1
Rolinco	81.4	+0.8
Rorento	58.4	—0.3
Royal Dutch	191.2	+2.3
Unilever	414	+4
VMF Stork	307.5	+3.5
VNU	285.5	—1.5
Wessanen	248.5	+2.5
West Utr Bank	50	+0.5

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

NORWAY

Mar. 26	Price Kroner	+ or —
Bergens Bank	142	[illegible]
Borregaard	370	[illegible]
Christiania Bank	152	[illegible]
DenNorske Cred	148.5	[illegible]
Elkem	100.5	[illegible]
Kosmos	150	[illegible]
Kvaerner	135	[illegible]
Norcem	136	[illegible]
Norsk Data	497.5	[illegible]
Norsk Hydro	133.5	[illegible]
Storebrand	259	[illegible]

SPAIN

Mar. 31	Price Pta %	+ or —
Bco Bilbao	840	[illegible]
Bco Central	632	[illegible]
Bco Exterior	345	[illegible]
Bco Hispano	465	[illegible]
Bco Popular	985	[illegible]
Bco Santander	711	[illegible]
Bco Vizcaya	1101	[illegible]
Dragados	297	[illegible]
Hidrola	119.2	[illegible]
Iberduero	146.7	[illegible]
Petroleos	336	[illegible]
Telefonica	180	[illegible]

SWEDEN

Mar. 27	Price Kronor	+ or —
AGA	185	[illegible]
Alfa-Laval B	291	[illegible]
ASEA (Free)	420	[illegible]
Astra (Free)	550	[illegible]
Atlas Copco	221	[illegible]
Cardo (Free)	280	[illegible]
Cellulosa	213	[illegible]
Electrolux B	284	[illegible]
Ericsson B	295	[illegible]
Esselte	500	[illegible]
Mo och Domsjo	230	[illegible]
Pharmacia	240	[illegible]
Saab Scania Free	690	[illegible]
Sandvik	835	[illegible]
Skandia	455	[illegible]
Skan Enskilda	97.5	[illegible]
SKF	323	[illegible]
Sonneson	185	[illegible]
Stora Kopparbrg	235	[illegible]
Sven Handlesbn	311	[illegible]
Swedish Match	307	[illegible]
Volvo B (Free)	342	[illegible]

SWITZERLAND

Mar. 27	Price Frs.	+ or —
Adia Intl.	5,000	[illegible]
Alusuisse	748	[illegible]
Bank Leu	4,150	[illegible]
Brown Boveri	1,800	[illegible]
Ciba Geigy	3,870	[illegible]
do. (Part Certs)	2,970	[illegible]
Credit Suisse	3,740	[illegible]
Elektrowatt	3,575	[illegible]
Fischer (Geo.)	1,350	[illegible]
Hoff-Roche PtCts	137,750	[illegible]
Hoff-Roche 1/10	13,750	[illegible]
Jacobs Suchard	7,600	[illegible]
Jelmoli	3,510	[illegible]
Landis & Gyr	1,950	[illegible]
Nestle	8,800	[illegible]
Oer-Buehrle	1,720	[illegible]
Pirelli	459	[illegible]
Sandoz (Br)	11,500	[illegible]
Sandoz (Pt Cts)	1,840	[illegible]
Schindler (PtCts)	780	[illegible]
Sika	1,650	[illegible]
Surveillance A	6,575	[illegible]
Swissair	1,970	[illegible]
Swiss Bank	588	[illegible]
Swiss Reinsce	14,620	[illegible]
Swiss Volksbk	2,450	[illegible]
Union Bank	5,200	[illegible]
Winterthur	5,400	[illegible]
Zurich Ins.	6,450	[illegible]

AUSTRALIA

Mar. 27	Price Aust $.	+ or —
Adelaide Steams	15.7	[illegible]
ANZ Group	5.56	[illegible]
Ampol Pet.	2.50	[illegible]
Ashton	1.42	[illegible]
Aust. Cons. Inds.	3.6	[illegible]
Aust. Guarantee	3.20	[illegible]
Aust. Nat. Inds	3.88	[illegible]
APM	3.5	[illegible]
Bell Group	7.32	[illegible]
Bell Res	4.18	[illegible]
Bond Corp Hldgs	3.12	[illegible]
Boral	4.18	[illegible]
Bougainville	2.67	[illegible]
Brambles Inds	6.08	[illegible]
Bridge Oil	1.50	[illegible]
B. H. Prop.	6.22	[illegible]
Burns Philp	6.10	[illegible]
CRA	7.16	[illegible]
CSR	3.1	[illegible]
Chase Corp	6.6	[illegible]
Claremont Pet	0.93	[illegible]
Coles-Myer	5.02	[illegible]
Comalco "A"	2.52	[illegible]
Consolidated Pet.	0.15	[illegible]
Costain Aust.	2.6	[illegible]
Elders IXL	3.56	[illegible]
Energ Res	1.68	[illegible]

AUSTRALIA (continued) [illegible]

JAPAN (continued)

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

CANADA

TORONTO

Prices at 2.30pm March 31

[illegible]

MONTREAL

Closing prices March 27

[illegible]

Total Sales 6,671 389 shares

Indices

NEW YORK

DOW JONES	Mar. 27	Mar. 26	Mar. 25	Mar. 24	Mar. 21	1986 High	1986 Low	Since Cmp High	Since Cmp Low
♦ Industri'ls	1821.72	1810.70	1778.50	1782.93	1768.56	1821.72 (27/3)	1502.29 (22/1)	1821.72 27.3.86	41.22 (2 7-32)
H'me Bnds	90.68	90.39	90.19	90.19	90.04	90.68 (27/3)	85.75 (14/1)	—	—
Transport	828.39	816.24	803.61	809.74	804.71	828.39 (27/3)	685.97 (9/1)	828.39 27-3-86	12.32 (8 7-32)
Utilities	191.53	189.37	187.75	186.76	184.60	191.53 (27/3)	169.47 (22/1)	191.53 27-3-86	10.5 28 4-42

♦Day's High 1849.74 (1817.41) Low 1806.51 (1775.98)

STANDARD AND POOR'S	Mar. 27	Mar. 26	Mar. 25	Mar. 24	Mar. 21	1986 High	1986 Low	Since Cmp High	Since Cmp Low
Composite‡	238.97	237.30	234.72	235.33	233.34	238.97 (27/3)	205.49 (22/1)	238.97 27.3-86	4.40 1 6.32
Indust'ls	263.87	262.26	259.59	260.16	258.03	263.87 (27/3)	224.88 (22/1)	263.87 27-3-86	3.62 30.6.32
Financials	31.08	30.85	30.32	30.69	30.38	31.15 (14/3)	25.19 (22/1)	31.15 14 3 86	8.64 2-10 74
N.Y.S.E. COMPOS'TE	137.69	136.70	135.22	135.64	134.80	137.69 (27/3)	117.75 (22/1)	137.69 27.3.86	4.642 25-4 4
AMEX.MKT. VALUE	269.81	268.17	266.52	267.72	270.95	270.95 (21/3)	240.30 (4/2)	270.95 21.3.86	29.1 9 12
NASDAQ OTC COMP.	373.31	370.60	369.28	370.67	372.59	373.31 (27/3)	325.01 (9/1)	373.31 27.3.86	54.9 5 10

DIVIDEND YIELDS	Mar. 21	Mar. 14	Mar. 7	Feb. 28	year ago (approx)
Dow Industrial	3.65	3.60	3.77	3.72	4.82
	Mar. 19	Feb. 19	Feb. 12	Feb. 5	
S and P Industrial	3.08	3.30	3.35	3.40	3.88
S and P Ind P/E ratio	16.71	16.36	15.12	14.89	11.11

TRADING ACTIVITY

Millions	Mar. 27	Mar. 26	Mar. 25
Volume †			
New York	178.10	161.46	139.25
Amex	13.302	12.161	11.773
O.T.C.	(u)	127.10	110.004

New York	Mar. 27	Mar. 26	Mar. 25
Issues Traded	2,069	2,051	2,025
Rises	1,147	1,103	666
Falls	544	568	973
Unchanged	378	380	386
New Highs	—	198	137
New Lows	—	14	14

CANADA

TORONTO	Mar. 27	Mar. 26	Mar. 25	Mar. 24	Mar. 21	1986 High	1986 Low
Metals & Minerals	—	2363.2	2376.1	2432.6	2442.85	2442.85 (21/3)	2067.1 (2/1)
Composite	3036.6	3024.3	3012.0	3041.3	3055.3	3055.3 (21/3)	2754.0 (17/2)
MONTREAL Portfolio	1564.58	1565.62	1558.84	1581.79	1583.36	1583.36 (21/3)	1386.60 (22/1)

NEW YORK ACTIVE STOCKS

Thursday	Stocks traded	Closing price	Change on day
Navistar	4,190,800	11	+ ⅛
S. Calif.	3,759,000	31⅞	+ ½
US Home	2,550,400	8½	+ ⅛
Massey-Ferg.	2,428,200	1⅞	— ⅛
IBM	2,196,000	149⅞	+1½
Western Air	2,141,100	12	+ ⅛
ATT	2,067,400	22⅛	—
KLM Air	2,019,900	20½	—
Texaco	1,961,800	30⅛	+1
Union Carbide	1,921,000	22⅛	+1

	Mar. 31	Mar. 28	Mar. 27	Mar. 25	1986 High	1986 Low
AUSTRALIA						
All Ord. (1/1/80)	(c)	(c)	1136.8	1125.7	1168.8 (25 3)	1010.8 (2 1)
Metals & Minls. (1/1/80)	(c)	(c)	580.4	567.0	602.0 (24 3)	492.5 (2 1)
AUSTRIA						
Credit Bk Aktien (2/1/62)	(c)	(c)	114.25	115.00	126.82 (15 1)	110.12 (5 3)
BELGIAN						
Brussels SE (1/1/80)	(c)	(c)	3503.67	3455.05	3503.67 (27 3)	2765.91 (15 1)
DENMARK						
Copenhagen SE (3/1/83)	(c)	(c)	(c)	242.42	242.76 (25 3)	214.37 (21 1)
FRANCE						
CAC General (31/12/82)	(c)	(c)	364.4	(u)	354.4 (27 3)	267.9 (2 1)
Ind Tendance (31/12/85)	(c)	(c)	140.1	u	140.1 (27 3)	101.6 (2 1)
GERMANY						
FAZ Aktien (31/12/58)	(c)	(c)	667.68	679.99	[illegible]	[illegible]
Commerzbank (1/12/53)	(c)	(c)	2055.60	2060.2	[illegible]	[illegible]
HONG KONG						
Hang Seng Bank (31/7/64)	(c)	(c)	1525.94	1578.63	1826.64 [illegible]	1555.94 (19 3)
ITALY						
Banca Comm Ital. (1972)	(c)	712.75	699.76	665.65	712.75 (26 3)	454.57 (24 1)
JAPAN**						
Nikkei (16/5/49)	15859.7	15364.5	15537.19	15059.7	15859.7 (31 3)	12491.5 (21 1)
Tokyo SE New (4/1/68)	1265.95	1228.88	1229.24	1196.56	1265.95 (31 3)	1025.55 (21 1)
NETHERLANDS						
ANP.CBS General (1970)	(c)	(c)	255.5	251.3	257.0 (6 1)	240.4 (3 3)
ANP.CBS Indust (1970)	(c)	(c)	250.3	245.6	255.2 (17 1)	234.0 (3 3)
NORWAY						
Oslo SE (4/1/83)	(c)	(c)	(c)	366.51	402.91 (15 1)	341.55 (11 3)
SINGAPORE						
Straits Times (30/12/66)	595.02	(c)	596.65	607.76	644.69 (2 1)	529.56 (19 3)
SOUTH AFRICA						
JSE Gold (28/9/78)	(c)	1250.5	1262.5	—	1397.6 (27 1)	1163.7 (13 2)
JSE Indust (28/9/78)	(c)	1167.6	1165.3	—	1203.1 (25 3)	1068.5 (2 1)
SPAIN						
Madrid SE (30/12/85)	1597.97	(c)	(c)	155.53	158.97 (31 3)	100.95 (3 1)
SWEDEN						
Jacobson & P (31/12/85)	(c)	(c)	2081.09	2064.75	2081.09 (27 3)	1729.57 (29 1)
SWITZERLAND						
SwissBankCpn (31/12/58)	(c)	(c)	561.40	564.1	625.5 (6 1)	554.7 (26 2)
WORLD						
M.S. Capital Intl. (1/1/70)	—	—	—	301.5	302.4 (20 3)	249.8 (25 1)

** Saturday March 29: Japan Nikkei 15,590.9 TSE 1,240.08

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

OVER-THE-COUNTER *Nasdaq national market, 2pm. prices*

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[illegible]

NYSE COMPOSITE PRICES

Continued from Page 37

[illegible]

Prices at 2pm, March 31

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from Page 36

Continued on Page 35

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

AMEX COMPOSITE PRICES

Prices at 2pm, March 31

OVER-THE-COUNTER

Nasdaq national market, 2pm, prices

Continued on Page 35

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Early gains trimmed by uncertainty

CONFIDENCE in the prospects for a further slide in interest rates buoyed Wall Street's credit markets as traders returned from the Easter break, *writes Terry Byland in New York.*

The stock market touched new highs in early trading before turning uncertain in sluggish post-holiday turnover.

At 3pm, however, the Dow Jones industrial average was up 9.34 at 1,831.06.

Federal bonds gained a full point on hopes that today's meeting of the Fed's Open Market Committee would set the stage for an easing in official credit policies.

The Fed encouraged such hopes by arranging $2bn in customer repurchases when federal funds touched 7⅜ per cent, which is at the lower end of the recent range. The move followed generous Fed liquidity help in the two pre-Easter trading sessions.

Yields on long-dated federal bonds dipped to around 7.5 per cent, signalling the market's renewed optimism over inflation following the collapse of Opec's attempt to stem the fall in world oil prices.

Gains in bonds were extended as crude oil futures plunged through the technically important level of $11 a barrel on the New York Mercantile Exchange and the Oil Minister of the United Arab Emirates reportedly warned of a $5 a barrel price unless there was agreement among Opec and non-Opec producers.

With the US economy still looking sluggish, despite the gain in February economic indicators, Wall Street believes the Fed will soon begin to lean towards easier credit.

The board itself is now known to be divided, with the rift deepened by the departure of Mr Preston Martin, who voted against Mr Paul Volcker, the Fed chairman, in the February decision on cutting discount rate. Some analysts believe the Fed might cut the discount rate again soon.

In the stock market, where trading was only about half recent levels, the response was less certain.

A recovery in IBM, after several weak sessions, helped the Dow average, but was offset by falls in the Detroit car stocks and in oil shares. Airline issues, responding to renewed bid hopes, moved up again.

The slide in IBM was reversed after Mr Barton Biggs, investment strategist at Morgan Stanley, described it as "the most attractive stock in the world," likely to reach $250 a share within 12 months. IBM, at $150⅝, jumped $1½, but turnover was modest.

Burroughs added $¼ to $66½ and Honeywell shed $⅝ to $71⅛.

Another substantial gain in Merck, the pharmaceutical leader, also boosted major market indices. Merck jumped $4 to $173¾ although trading was light. Except for Bristol-Myers, up $⅝ at $75⅝, the remainder of the drug sector was quiet.

There was a burst of selling in General Motors, down $1¼ at $86¾. Nervousness over falling sales reported by the industry clipped $½ off Ford at $82½ and $⅞ off Chrysler at $45⅛.

Ashland Oil fell $2½ to $52¾ on news that First City Financial, investment vehicle of the Belzberg family, failed to buy more than 50 per cent of the oil group's stock, thus damping down the chances of an all-out bid.

Exxon shed $⅝ to $55⅝ as Wall Street eyed the prospects of an oil price below $10 a barrel, but trading was light. Atlantic Richfield shed $⅛ to $52¼, and Mobil $⅝ to $28¼.

Thin trading in chemicals left prices vulnerable to profit-takers. Monsanto dipped $1⅝ to $61¾, and Union Carbide, at $21⅝, was $⅛ off. However, Du Pont edged up ½ to $75½.

There were modest gains among retail stocks as the market began to hope for increased consumer spending. Federated Department Stores added $⅝ to $78⅞, and K mart, leader of the discount store sector, gained $⅝ at $44⅝.

In the credit markets, Federal bonds extended early gains, with the longer end the centre of attention. Short-term rates eased, putting the 3-month Treasury bill at 6.32 per cent behind Federal rate of 7⅜ per cent.

● Industrials traded higher in **Toronto** but oils and mines weakened. A generally firmer trend was seen in **Montreal**.

MADRID

BANKS led Madrid higher in active trading and the bourse index closed 3.44 up at 159.97.

Among banks Banco Hispano added 20 percentage points to 465 per cent of nominal value. Banco Popular was up 25 points to 985 and Espanol de Credito gained 20 points to 750.

● Other European bourses were closed for the Easter holiday weekend.

SINGAPORE

PROFIT-TAKING in the absence of fresh factors left Singapore broadly lower in quiet trading. The Straits Times industrial index shed 3.63 to close at 593.02.

Promet, which topped the active list, lost 3 cents to 36 cents ahead of results.

Banks closed the session mixed to lower.

TOKYO

Bulls fuel surge to new peaks

ACTIVE buying by institutional and individual investors pushed Tokyo to new peaks yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average surged 268.85 points to 15,859.75, topping 15,800 for the first time. Volume of 1,326.26m shares traded was up sharply from Friday's 1,114.35m. Gains outpaced losses 590 to 266, with 88 issues unchanged.

Investors have remained bullish since volume and prices reached record highs last Wednesday. They expect non-life insurance companies and other institutional investors from Tuesday to increase the pace at which they have been shifting funds from bonds to stocks. Tuesday is the first day of the new fiscal year.

Major contributors to yesterday's rise were steels and shipbuildings, favoured by institutional investors. Nippon Steel topped the active list with 140.38m shares changing hands. It rose Y15 to Y188. Kawasaki Steel, third busiest with 61.02m shares traded, gained Y17 to Y174, and Mitsubishi Heavy Industries Y25 to Y450.

Nippon Yusen remained popular, reflecting its property holdings. It added Y41 to Y525 on a volume of 70.01m shares, the second largest. Among chemicals, Sumitomo Chemical, considered cheap in relation to its competitors, rose Y11 to Y346, Mitsui Toatsu Chemicals finished Y21 up at Y274 and Showa Denko Y21 up at Y302.

Utilities gained on a wide front, with Tokyo Electric Power jumping Y90 to Y3,920 and Tokyo Gas Y8 to Y437.

Biotechnologies were generally firmer. Mitsubishi Chemical advanced Y47 to Y679 and Tadeda Chemical Y70 to Y1,470.

Bond trading was thin against hesitant market sentiment, although yields dropped sharply on light buying. The yield on the barometer 6.2 per cent government bond due in July 1995 fell to 4.55 per cent from Saturday's 4.6 per cent. Dealers and brokers apparently wanted to wait for movements in US 30-year Treasury bonds, the yield of which fell late last week.

Investors interest was dampened because the expected third cut in the official discount rate has not yet arrived. However, institutional investors and dealers share the medium-term view that interest rates will decline at home and abroad.